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China Report

ECONOMIC AFFAIRS

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30 APRIL 1987

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NATIONAL AFFAIRS, POLICY

DENG LIQUN ADDRESSES ENTERPRISE MANAGEMENT GROUP

OW062337 Beijing XINHUA Domestic Service in Chinese 1156 GMT 6 Mar 87

[Excerpts] Beijing, 6 Mar (XINHUA)--At its eighth annual meeting which opened today, the China Enterprise Management Association pledged to deepen the reform to invigorate enterprises.

Zhang Yanning, secretary general of the association and vice minister in charge of the State Economic Commission, delivered a work report at the meeting on behalf of the association. He said: In order to promote modern management and explore ways to set up a socialist scientific enterprise management system with Chinese characteristics this year, the association will concentrate efforts in the following three fields:

- It will step up study of enterprise management and actively explore ways to set up a socialist enterprise management system with Chinese characteristics.
- It will strive to improve work quality and offer new services to enterprises.
- It will maintain close contacts with enterprises.

Founded in 1979, the China Enterprise Management Association is a nationwide network with organizations in 29 provinces, autonomous regions, and municipalities; 17 State Council industrial departments; some 160 industrial cities; and nearly 1,000 large and medium-sized enterprises.

Addressing the opening session today, president of the association Yuan Baohua urged the association to adapt itself to the new situation of making reforms, opening to the outside world, and invigorating enterprises by reviewing experience and studying new problems in order to further improve the work.

Speaking in the capacity of the association's adviser, Deng Liqun called on the association to uphold the four cardinal principles and persist in the reform and open policy and the socialist modernization drive.

Tian Jiyun and Zhang Jingfu attended the meeting today, which was chaired by the association's vice president Sha Ye.

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CSO: 4006/533

NATIONAL AFFAIRS, POLICY

FURTHER IMPLEMENTATION OF PRICE MANAGEMENT URGED

OW071155 Beijing XINHUA Domestic Service in Chinese 0122 GMT 7 Mar 87

[Text] 7 Mar (XINHUA)--An official from the State Administration of Commodity Prices recently pointed out that, although all localities and departments have taken measures to carry out the circular issued by the State Council on 14 January on strengthening price administration and maintaining stable prices in the market, the phenomenon of enterprises arbitrarily raising prices still exists in some areas. Enterprises going beyond their pricing powers must be curbed.

It is learned that, currently, some enterprises raise commodity prices arbitrarily by going beyond their pricing powers, some willfully change state-set commodity prices by fixing their own, and individuals even get together to "decide" to alter the state-fixed prices. This behavior has only caused confusion in price management, but has also damaged consumers' interest and aroused discontent among the masses. Five people from the Shanghai Petrochemical General Plant and from the Sichuan, Beijing, Fujian, and Lanzhou vinylon plants respectively, decided to raise the price of vinylon. The State Administration of Commodity Prices circulated a notice criticizing such behavior. The Jiangsu Provincial Department of Textile Industry and the Bureau of Commodity Prices have jointly issued a circular on "reaffirming the regulations governing cotton yarn prices, in which no locality should adjust or change such prices without authorization" to correct the practice by some cotton mills and localities of raising cotton yarn prices without authorization or in disguise. Some enterprises in Jilin Province arbitrarily and secretly raised newsprint prices. When such an act was exposed, the State Administration of Commodity Prices instructed the Jilin Provincial Bureau of Commodity Prices to correct such practices and called for serious investigation and handling of the violators.

The responsible official of the State Administration of Commodity Prices pointed out that commodity prices play a key role in the overall national economy and in social stability, that all enterprises should conscientiously carry out the pricing policy by taking the overall situation into consideration, and that all relevant departments must gear themselves to supporting the departments of commodity prices to enhance administration of commodity prices, thereby facilitating a smooth implementation of pricing reform and of the whole economic reform as well.

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NATIONAL AFFAIRS, POLICY

JINGJI RIBAO ON REFORM, ECONOMIC DEVELOPMENT

HK050508 Beijing JINGJI RIBAO in Chinese 14 Feb 87 p 3

[Article by He Jiacheng (0149 1367 2052), Bian Yongzhuang (6708 0516 1104), and Du Haiyan (2629 3189 3601): "Correctly Grasp the Relationship Between Reform and Economic Development--Reflections on Practice in Reform During the Past 8 Years"--first three paragraphs published in boldface]

[Text] Since 1978 the national economy has returned from the brink of collapse to the track of an initially steady development, but repeated irregular fluctuations in economic operations have emerged which have become difficult problems hampering reform and development.

Influenced by various factors, economic instability has objectively become a normal state. Therefore, reform has to proceed in instability, and economic stability can be achieved through reform. Skill and art in reform are indispensable to this process.

When the economy is in the unstable state of overheating or over-cooling, both macroeconomic and microeconomic results are in the decline. Therefore, the unity of speed and efficiency should be based on economic stability.

The aim of China's economic structural reform is, in the final analysis, to achieve a long-term, steady growth in national economy. Therefore, correctly handling the relationship between reform and economic development is a point crucial to the question. After 8 years of reform, it is necessary to make a profound reflection on the gains and losses of the reform, whether from the view point of observing realities or from the point of view of looking back at what we have achieved in the past.

Reflection One: Irregular Economic Fluctuations--Impediment to Reform and Development

Since the 3d Plenary Session of the 11th CPC Central Committee, our country's economy has entered the development stage in history stressing an enterprising spirit. With in-depth development of the economic structural reform and changes in economic development strategy, the entire national economy has returned from the brink of collapse in 1978 to the current track of initially steady development.

However, it must be noted that as the economy develops and structural reform goes on, because the existing chronic illness of overspending in investment, the traditional structure has not yet been eliminated and overexpanded consumerism has prematurely emerged in the wake of pattern transformation. Moreover, it gains momentum now and then, making it difficult to get expansion of total demand under control. Consequently, irregular fluctuations in economic operations have surfaced repeatedly. After a relatively big fluctuation in economic operations occurred between 1979 and 1981, a new round of ups and downs began in the last quarter of 1984. In 1986, the financial deficit piled up further; bank credits could hardly be curtailed; nonproductive expenses, in particular group spending, remained high; employees' income became an independent economic variable hard to control and, what is more, it increased at a rigid, ultrafast speed; and although the overall level of prices had been put under control, it remained vulnerable to any change.

All this has helped us realize that irregular economic fluctuations have an extremely adverse effect on the rapid and effective development of the economy and the smooth progress of reform.

The experience of the past has shown that the instability caused by irregular economic fluctuations can, more often than not, disrupt smooth development of the economic and social process, bring out or intensify people's dissatisfaction, lead to confusion in interest signals and deviations of the relationship of interests from the rules of distribution. As a result, either the prematurely high growth rates of the economy will be scaled down at a higher price, or the instability of the economic process will be further aggravated and the minimum economic development targets will come to nothing. Meanwhile, just as the case which has been proved by experiences over the last few years in our country and other socialist states, more often than not, economic instability will increase the uncertain factors in the reform, handicap the reform, and even lead it to the situation of one step forward, two steps backward.

Reflection Two: Is Economic Stability Actually the Condition or Result of Reform?

This is the prerequisite for a correct judgment on the situation and a good grasp of the opportunity of reform. Generally speaking, economic stability is decided by at least three factors, such as the guiding ideology on the macroeconomy and policies closely related to it, the economic structure, and structural patterns. A change in any one of them will cause economic instability. For example, with regard to the guiding ideology for the economy, any premature advance and effort to achieve quick results are apt to lead macroeconomic policies toward a tendency to use financial deficits to expand currency supplies. Regarding the economic structure, any change in demand and supply patterns, particularly the fixing and freezing of prices, will generate a partial imbalance between the supply and demand of specific departments. As far as structural patterns are concerned, the impulsions

for expansion and investment, or consumption hunger, inherent in the traditional economic structure will make the use of economic resources and effective demands excessive and lead to an imbalance between total supply and demand in economic life. Hence, economic instability becomes a normal state. Even in the course of reform, dislocation of the economic structure caused by the leftist influence on guiding ideology, remaining from the old structure, and the coexistence of the old and new structures, will also generate some new destabilizing factors in the economy. In this sense, economic stability can only be the result and not the condition of reform whether prior to, or in the wake of, reform. Therefore, we have to conduct reforms in a situation in which the economy is not so stable and the environment is not so relaxed. If we concentrate on creating a relaxed environment and blindly wait for economic stability, this may inappropriately slow down the reform inappropriately or we will lose a chance. Of course, instead of giving up our efforts to stabilize the economy, in the course of reform, we should make unremitting efforts to create a stable environment for reform, using reform measures and plans and the skill and art of opportune selection, especially in such limited areas as the guiding ideology for the economy, and macroeconomic policies.

Reflection Three: Unity of Speed and Efficiency Can Be Achieved When the Economy Develops Steadily

The practice over the last few years shows that in our economic development, speed and efficiency often contradict or clash with each other and, consequently, economic results become an economic variable having nothing to do with growth rate. In other words, economic results are always hard to improve and they may even drop regardless of the level of growth rate.

With some sober pondering, we will find that the fundamental reason behind this state of affairs is our failure to rely on economic stability in achieving unity of speed and efficiency. Therefore, when the economy is overheated, total demand is increasingly surpassing total supply, market pressure is insufficient, the lateral regulation of market mechanisms is weakening, and investment prospects are promising. In this situation, enterprises will blindly expand their production capacity regardless of investment returns, technological progress, and cost management. At the same time, financial deficits and the scale of credits will become more stretched and both micro-economic and macroeconomic results will drop drastically. When the economy is over-cooling, there will be a contraction in total demand and this can suppress total supply to a greater extent and may result in further expansion of the gap whereby demand surpasses supply. In this situation, on the one hand, production capacity will lie idle, the number of goods kept in stock increase, the turnover of circulating funds slow down, and growth rates drop. On the other, reduction in production will be accompanied by pay rises and reduction in financial revenues by rigid financial expenditure increases.

There will be a decline in the productive rate of wages, an increase in production costs, and a decrease in the profits and taxes delivered to the state. All this will likewise cause a drop in macroeconomic and microeconomic results.

It can thus be seen that to accomplish the wonders of high efficiency based on moderate speed or moderate efficiency based on moderate speed is a fantasy. [sentence as published] Therefore, we must combine speed and efficiency on the basis of achieving economic stability rather than consciously expediting economic development and reform by means of economic instability.

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NATIONAL AFFAIRS, POLICY

SOCIALIST SHAREHOLDING SYSTEM DISCUSSED

HK060708 Beijing JINGJI YANJIU in Chinese No 12, 20 Dec 86 pp 62-66

[Article by Liu Shibai (0491 6108 4101): "On the Socialist Shareholding System"]

[Text] I. Causes for the Existence of a Shareholding System Under Socialism

The shareholding system is a type of enterprise organization in a commodity economy--a system of jointly-invested operations. This kind of an enterprise organization has been generated to suit the needs for capital centralization in the large-scale production and operations of a commodity economy. Capital centralization is not a feature solely inherent in capitalist production organizations. Rather, it is generally applicable to a developed commodity economy with socialized production as its basis. A socialist economy is a type of a developed commodity economy. Socialist large-scale production and operations likewise require capital centralization. It [a socialist economy] demands in the same manner capital mergers and the emergence therefrom of the shareholding system.

With the inevitable appearance of a socialist shareholding system we need to further discuss the following points.

In a developed commodity economy capital is the factor which initiates social reproduction. The traditional structure of a socialist economy was in which the state distributed enterprises' capital. The autonomous raising of capital by the enterprise did not then exist. This ossified system of capital distribution strangled enterprises and was an important cause in an enterprise' lack of vitality. However, under the new structure of a socialist commodity economy, enterprises' capital is self-generated and this becomes the leading form. This is caused by the following:

- 1) In a socialist commodity economy the enterprise is solely responsible for its own profits and losses. It is self-developed. In matters of finance, it does not depend on the state for support but must rely on its own internal accumulations and solve the problem of raising capital through the self-raising of funds. At the same time, in the course of an enterprise's

vivaciously and autonomously expanding reproduction, the demand for capital becomes even more complex. This sorely demands that the enterprise display activism and initiative in the raising and deployment of funds.

2) The autonomous generation of enterprises' capital on the one hand, include the utilization of the credit and loan funds of banks, namely, indirect financing, and, on the other hand, through direct financing also includes the self-raising of funds and full utilization of the idle funds of other enterprises and of society. In order to invigorate the funds, it is necessary to fully develop and make use of the functions of direct financing. Through floating bonds, debentures, and share certificates to tap the potentials of social funds, an insufficiency in bank credit and loans can be supplemented. And through opening up such fund-raising agencies as the shareholding system a positive role is played in promoting the development of the urban and rural economy.

3) With the structure of our country's ownership system assuming diversified forms, the individual and collective economies increasingly developing and growing in relative importance, particularly the enterprises owned by the whole people that have been turned into economic entities, and the interests between the state and enterprises readjusted, a phenomenon of dispersed holdings and ownership of funds has appeared. Besides the centralization of funds in state finances and the credit and loan funds of banks, localities, enterprises, and individuals all have in their hands funds at their disposal or owned by them. In the course of the economic operations, a portion of these funds very frequently becomes idle and they may not necessarily be turned into the enterprises' production funds through the medium of the banks' savings or credit and loan accounts. Under such conditions, the merging of funds is realized through breaking the limits of the ownership system, departments, and regions, and the possibility is offered of effectively using society's idle funds.

4) Following the reform of the socialist financial structure and the development and perfection of the financial institutions credit is becoming more diversified and activated and a financial market has gradually been formed and conditions have been created for the socialist merging of funds both organizationally and in the market mechanism.

The above-mentioned points show that in a socialist commodity economy the generation of enterprises' funds will be principally autonomous and that the autonomous merging of funds will become increasingly important. Hence, people will urgently need to find a relatively more activated and attractive economic way to incur the autonomous merging of funds. And shareholding is precisely what can be offered. Shareholding manifests a joint investment relationship which offers joint enjoyment of the benefit and joint sharing of the risks. It is capable of merging and crystalizing dispersed and idle funds in the hands of different units and individuals.

1. A shareholding system enforces payment of dividends on the capital share. Input of the same amount of capital enjoys identical interests. This is beneficial in arousing and handling the interest relationships of the different kinds of investors (nations, collectives, joint enterprises or units, individuals and units of foreign capital), stirs up their investment enthusiasm, and thereby forms and develops the socialist merging of funds.

2. Share dividends vary in accordance with the large or small profits of the enterprise. In the event an enterprise has fared well in its performances, the share dividends may be higher than the bank's interest rates. This kind of interest relationship makes the shareholding system an attractive way to raise funds.

3. Under the shareholding system, the operation risks are jointly shared by the investors and the state will no longer have to take over the financial burden of the deficits or losses of the enterprises. Moreover, as a result of the dispersal of the state's investments to different enterprises, the risk ratio may be lowered and this will be beneficial in increasing macroeconomic investment benefits.

In short, the shareholding system can appropriately handle the following interest relationships: 1) The relationships of the rights, interests and responsibilities of the various categories of investors in the enterprises; 2) the relationship between investment and risks; and 3) the relationship between the enterprise's profits and the investors' income (dividends). This can effectively attract the return of idle social funds owned by different interest groups and smoothly combine and merge them.

II. Role of the Socialist Shareholding System

The shareholding system is not only a new form of enterprise organizational structure but also a new form of ownership. Hence, the changeover, to a definite extent, of the state-run economy to the shareholding system implies an important change in the economy's microeconomic basis, and in turn necessarily leads to changes in the acts of the enterprises and the state's economic management and the economic operational mechanism.

Rationalization of the shareholding system and the acts of state-run enterprises.

The following conditions have appeared in the reform of the management structure of state-run enterprises in our country. On the one hand, starting from the invigoration of enterprises, it is necessary to streamline the political structure and delegate power downwards, expand the decisionmaking powers of enterprises and enable enterprises to become relatively independent commodity producers. But under the current structure of separation of the two powers enterprises' acts of a short-term nature will be aggravated. On the other hand, starting from the strengthening of macroeconomic control and under the conditions of the inability to manifest the wishes of the owners in the enterprise's decisionmaking mechanism, administrative organs representing the state will have to resort to administrative measures to intervene in the enterprises' activities. Thus, once invigoration is emphasized and enforced there may be a loss of control and once macroeconomic control is strengthened there is the possibility that control will become strangled. These are the two difficulties currently being met in the microeconomic reform aimed at invigorating the enterprises under the system of ownership by the whole people.

In order to avoid these difficulties people have turned to another line of thought: formation of a mechanism which can, under the pattern of the separation of the two powers, make the interests of the owner (the state), the entrepreneur (enterprise manager) and the direct producers (workers and staff members) restrict and condition each other and merge correctly with each other. On the one hand, this avoids the occurrence of short-duration acts resulting from the portion of the interests of the enterprise over-asserting its wishes, or, in other words, the enterprises' activities surpassing and going against the owners' wishes. On the other hand, it also avoids upper-level government control organs from resorting anew to the adoption of the simple administrative measures annulling the enterprises' invigoration. In order to form the above-mentioned mechanism to restrict and condition their interests, it is necessary to reform further the concrete forms of the ownership system of enterprises, to improve and perfect the enterprise's organization and decision-making structure and, from various sides such as property ownership, profit distribution, production decisionmaking, etc., to smooth out the relationships between owners, entrepreneurs and direct producers. For this reason people have proposed the idea of having a portion of the state-run enterprises enforce the shareholding system.

The procedure of enforcing the shareholding system in state-run enterprises is as follows: An overall evaluation of the enterprise's assets is made and a fixed value or price is estimated. All the assets are then converted into shares. By far the greatest portion of the shares are sold to the state-owned enterprises and banks. Next the enterprises' own capital is converted into shares to become the portion of the shares held by the enterprises; a portion of the shares is then sold to the enterprises' own workers and staff members. By doing this state-run enterprises, through the shareholding system, will present the statute of "one enterprise three systems, operating as a joint venture."

Shareholding enterprises enforce the plant-head responsibility system under the leadership of the board of directors. The board of directors is composed of representatives of the shareholders. Under the "one enterprise three systems" method, all three parties--the state, the collective, and the individuals--designate their representatives to form the board of directors. The board's major tasks are to appoint the plant head and to decide on the direction of the enterprise's development, its operation guidelines, and its important production policies. Under the conditions of this kind of enterprise organizational and decisionmaking structure the state can, through holding an overwhelming portion of the shares, control the enterprise's board of directors and thereby decide on its important policies and guidelines and strategic targets and protect the owners' interests. In addition, the plant head, being an appointee of the board of directors and operating as an entrepreneur, can now, without fear of intervention, devote his efforts to the enterprise's rational operations and realize the greatest value-increment of the enterprise's capital. As for the workers and staff members, they exercise their supervisory and democratic control functions through the employees' representatives conference. At the same time, the workers and staff members, in their capacity as shareholders, can elect their representatives to the board of directors and by doing so the workers and staff members are provided with a wider area to exercise their right of being masters of their house. In the process of

decision making under the shareholding system, there is a force of mutual restraint from three parties, namely the owner, manager, and the direct producer which is beneficial to the correct handling of the interests between the state, the collective, and the individuals and to realizing the unanimity of the enterprise's operational interests and social public interests and the unanimity of the current interests of the workers and staff members and their interests in long-term development. The correct regulation of the above-mentioned interest relationships is the economic prerequisite for rationalizing the acts of the enterprises.

The shareholding system and the separation of government from enterprise functions.

Under the shareholding system the state's properties are shown in state-owned shares. The shares should not belong to any one department but a specialized organ should be formed to control them. This organ should be responsible for the selection and appointment of a member, or members, to the board of directors of a stock company. The original administrative department in charge of the enterprises is no longer the representative of the owners and therefore is no longer empowered to interfere in the enterprises' activities. By doing so, the relationship between an enterprise and the department in charge has been changed from a subordinate relationship of a lower-level organ to a higher-level organ, to a relationship of equality. This is beneficial to streamlining the organs of administrative departments in charge of economic affairs and converting them onto the track of serving the enterprises.

Economic interaction between the shareholding system and the enterprises.

Under the shareholding system, the fact that the more investments are made the larger the share of the interests and the fact that investors of identical amounts share a status of equality in decisionmaking gives rise to a relatively strong coagulating and adhesive power of the productive elements in the various economic sectors. This can accomplish the merging and combination of funds of different departments, different regions and different ownership systems, and thereby facilitate the development of lateral economic combinations.

Transfer of shares and liquidity of funds.

The role of the shareholding system is not confined to only raising funds. Rather, its role lies also in facilitating the merging of funds and enabling the funds to circulate, providing them with liquidity. Because share certificates constitute property evidences entitling the holders to a share in the profit dividends and can meet the needs of investors aspiring for a definite income, the shares in themselves possess an exchange value and the possibility of exchange. The transfer of shares can also meet the urgent need for funds on the part of the enterprise or individual(s) for living expenses or for production purposes. Moreover, it enables investors to choose their investments, and funds originally invested in a certain venture may be withdrawn--through selling shares--for investments in another enterprise or enterprises with higher economic benefits and which produces more benefits for the investors.

The transfer of shares can keep funds from entering a "dead end alley," and thus greatly arouse the enthusiasm for investments. If share certificates are good only for procuring dividends and cannot be bought or sold or mortgaged, then they would be inferior even to such property evidences as a bank negotiable debenture since the latter are convertible and people can use them to withdraw funds. It can thus be seen that fundraising through the issuance of share certificate and the development of enterprises under the shareholding system result, in the end, in making share certificates transferable and marketable. This is an innate logic of a commodity economy and is an economic trend that cannot be defeated. If we can search for, and find, a way to transfer share certificates which, under the control and supervision of a socialist state, is appropriate and permits no speculative acts, so that in effect funds invested in negotiable instruments can be melted, then the circulating character of funds can be augmented.

The shareholding system and the financial market mechanism.

The function of the shareholding system is to facilitate the formation of the financial market mechanism. It constitutes the necessary condition for the market mechanism to fully play its role. The financial market mechanism mainly asserts its role by making use of the interest rate and the discount rate to adjust the supply and demand of credit and loans.

In a socialist commodity economy, the financial market mechanism fully exerts its role mainly through the following: 1) Letting the interest rate float and fully displaying the interest lever's role in regulating the quantity and direction of the flow of capital. 2) Enforcing the discounting of commercial bills, bonds, and share certificates, and making use of the discount rate to regulate the flow of funds. 3) On the basis of the development of enterprises under the shareholding system, and by means of the circulation of stocks and bonds, using the change in the price of securities to regulate the flow of capital.

III. The Shareholding System and Changes in the Socialist Ownership System

The shareholding system brings along not only changes in the enterprises' organizational structure but also readjustments and changes in the structure and concrete form of the enterprises' ownership system. When an enterprise issues and sells its shares to other enterprises (state-run and collective enterprises), organ units, and individuals, its share capital will include shares bought by units owned by the nation, shares bought by collective units, and units owned by the nation from their after-tax profits, and shares bought by individuals. By doing this the original unitary state-ownership system and the unitary collective ownership system will be converted into "one enterprise three systems," thereby producing an interlocking and combined statue of the ownership system. Under the conditions in which a socialist commodity economy has attained full development and implemented the autonomous combination of capital, the above-mentioned interlocking and complex statue of the ownership system will be manifold, diversified, and splendourous. For example, it may take the state-owned shares as the principal body or the collective-owned

shares as the principal body, but its basic form will be state shares plus collective shares plus individual shares, although in each enterprise, the proportion of each of the three kinds of shares will be different in each case. This condition illustrates that shareholding brings about pluralism in the originally unitary form of the public ownership of enterprises.

Regarding the shareholding system's making the enterprise's ownership system pluralistic, in my opinion it should be observed and understood from the following different directions.

1. Our country's traditional unitary public ownership system has been the result of the demarcation of departments and regions under the originally ossified economic structure. This type of public ownership system is of a closed nature. For a long time it has closed within an enterprise the social funds and other productive elements, has greatly impeded the economic portfolios of enterprises, and has not been conducive to the circulation and renewed organization of their productive elements. On the other hand, pluralism in the enterprise's ownership system is derived from interlocking [capital] and is a result of mixing and joint growth in an enterprise's capital under different forms of ownership. This state of affairs implies that capital and also productive elements flow and autonomously unite between and among enterprises and regions. The intermixing and combination of different ownership systems gives the ownership system of enterprises a special feature of the opening-up type. It implies that the enterprises may reciprocally use their idle capital and capital in the hands of residents, to carry out an autonomous union of capital and meet the demands of a developed commodity economy.

The pluralistic nature of the enterprises' ownership system brings about the organic union in enterprises of the public ownership system at various levels and the individual ownership system. The shareholding system converts into an enterprises' capital and the social funds into an enterprises' joint funds which under the traditional structure elbowed and repelled each other. Under the "one enterprise three systems," state funds owned by the nation, funds owned by the collective and funds (a small quantity) of the individuals are not three independent categories but are merged into a single body and manifested as united enterprise funds. Thus, in reality, the important elements of the collective ownership system of ownership by the nation, while the important elements of the national ownership system are also introduced into the enterprises under the traditional collective ownership system. Concurrently, the important elements of individual ownership are also introduced into the enterprises under the public ownership system. Thus, the enterprises' ownership system no longer is a unitary structure but is now a pluralistic structure. These conditions imply that national ownership and collective ownership of funds and the means of production are closely united together; that in the collective units the enterprises' internal partial ownership of these elements and their external collective ownership of them are united together; and that thereby the unitary enterprise public ownership system becomes a public ownership system of manifold layers. Concurrently, the public ownership of funds and the means of production and individual ownership of them (in small quantities) are united together and this injects a certain incompleteness

into the character of the socialist public ownership system. Under the conditions of the public shares as the principal body, this pluralistic form of the ownership structure does not change the fundamental nature of the public ownership system of the enterprises and the enterprises are still the properties of the state or the collectives. But they are no longer purely state properties and purely collective properties but are untied public properties jointly owned by the state and the collectives.

3. The pluralistic ownership system, helped by the union and association inside the enterprises of the manifold ownership relations, can effectively realize the combination of the interests of the state, of the collective (enterprise), and of the individual and thereby fully arouse the enthusiasm of the workers. Socialist enterprises should truly realize that the workers are masters of their house, fully display their creativeness and pioneer spirit and strengthen the enterprises' vitality. In reinforcing the shareholding system since the workers and staff members hold a portion of the enterprise's shares they are not only the laborers but also the investors and they not only share in the fruits of their own labor through the form of salaries and wages but also enjoy a share of the enterprise's profits through obtaining share dividends. In this way between the workers and staff members and the enterprise there exists reciprocal and common interest relationships. Holding a portion of the shares further implies correspondingly accepting the investment risks and this in turn determines the existence between the two parties' economic relations of coexistence, co-prosperity and common interests.

Stock enterprises permit the use of the enterprises' self-owned funds to buy shares. This enables the enterprises originally under the state unitary system of ownership to obtain the important elements of enterprise ownership. Dividend income from the enterprise's shares will be used to further develop the enterprise's production and to enhance the income of the workers and staff members. This type of ownership and distribution relationship of the enterprises under the public ownership system, by means of the conversion mechanism of public's interests into the enterprises' interests into the interests of the workers and staff members, will enable the workers and staff members to further clearly understand that they are truly the masters of the enterprise.

In short, the shareholding system, by means of the association of its pluralistic ownership relations, strengthens the direct character of the social public ownership system and overcomes the character of detachedness that the traditional pattern of state ownership harbors towards the workers and staff members. These ownership relations mentioned are beneficial to realizing the fuller and closer union of the interests of the state (whole people), the enterprise (collective), and the individuals and also beneficial to the encouragement and display of the spirit of the workers and staff members acting as masters of their house.

4. Under the controlling and decision making system calling for a pluralistic structure of the ownership system and the existence of shareholding enterprises, it is possible to form a power structure for the reciprocal conditioning of the ownership principal bodies in a manner that is suited to the actual

ownership relations. Since the decision making power is regulated by the capital stock and the decisions are implemented through the plant-head responsibility system under the leadership of the board of directors, the plant-head not only is an independent entrepreneur but also must carry out the wishes of the three parties making up the capital stock. He must faithfully protect the interests of the three parties, and especially follow the wishes of the principal body, namely, the state, and carefully protect the state's interests. This type of a suitable ownership structure (with the state being the main body) and power structure inside the enterprise can avoid, under the pattern of the simple separation of the two powers, the enterprise's decision making tendency to follow partial interests. This thus lays the economic foundation for rationalizing the enterprise's actions.

5. The joint public ownership system with a pluralistic ownership leads to the development of the socialist union of funds and facilitates the common enjoyment of the benefits of the socialist union of funds. First, the large amounts of the habitually idle funds under the bondages of "ownership by departments" and "ownership by regions" are now available for use by those enterprises in need of funds, thanks to the existence of this pluralistic ownership system of the opening-up type. The reciprocal investing and holding of each other's shares among the enterprises will convert the funds originally held, and to a large extent separately used by the individual enterprises, into social funds available for disposal and use by the enterprises within a larger sphere of society and people can discover from this a road to the socialization of capital as a means of production. Next, the socialist union of capital will generate powerful "united productive forces" and provide the national income an increment (referring to the sum total of the additional profits realized among the enterprises through the union of funds). This increment, passing through the distribution mechanism of the shareholding system and by means of various forms such as interest or dividend payments, comes under the joint ownership of principally the investors in the enterprises and the users of capital and will be further used to develop social production. Of this, the portion spent on the consumption funds is separately owned and enjoyed by the extremely large range of workers and staff members of enterprises taking part in the investments and using the investments. Hence this manifests that the macroeconomic effects and benefits of the socialization of the means of production are jointly owned and enjoyed by the workers joining forces on a society-wide scale and thereby develops the socialization of the distribution of interests. Naturally, this type of income distribution and separate enjoyment of benefits, due to the fact that they are based on the input of funds and not on the input of labor, still carries the important element of individual ownership and traces thereof.

The above five points show that the united ownership system in the form of shareholding is a new type of socialist public ownership system. It possesses strong adhesive and permeating powers, can join together enterprise ownership and individual ownership, and put them into the fold of the social ownership structure. This pluralistic public ownership system integrates well the interests of the state, the enterprise, and the individual and in policy reflects and represents the wishes of the state, the enterprise, and the workers and staff members. Therefore, this type of ownership system is a further improvement and development in the socialist public ownership system.

FOREIGN TRADE, INVESTMENT

FOREIGN INVESTMENT PROBLEMS IN CHINA EXAMINED

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[Article written in August 1986 by Lin Shenmu (2651 2773 2606) and Xu Li (1776 4539) of the Institute of Economic Research on Urban and Rural Construction in China: "The Influence of Policies and Institutions on the Introduction of Foreign Capital"]

[Text] Since the policy of opening China to the outside world began to be implemented, its success has gained worldwide attention, but the conflicts and problems encountered have also been a matter of concern to many. It is against this background that this article will discuss solutions to actual problems in the realm of direct investment by foreign firms and will intensively analyze various domestic policies and domestic institutional factors restricting the development of these investments to derive some ideas and suggestions about improving the investment environment which may be chosen for consideration.

I. Achievements and Problems in the Absorption of Foreign Capital
(Footnote 1) (The term foreign capital or absorption of foreign capital in this article means absorbing foreign firms' direct investments, unless otherwise specified.)

The most remarkable success of the opening up policy in the economic realm is the great development in absorbing foreign capital. During the 7 and 1/2 years between 1979 and June 1986 the cumulative inflow of international capital was 24.88 billion dollars, of which 6.69 billion dollars were foreigners' direct investments and 18.19 billion dollars were foreign loans. (Footnote 2) (See "Almanac of China's External Economic Activities and Trade," 1984 and 1985 issues, and the State Statistical Bureau's "Communique on the Statistics of the National Economy and Social Development for 1985," published in RENMIN RIBAO, 1 March 1986) The growth rate of direct investments by foreign firms has been particularly high. In a short span of several years the cumulative capital inflow has surpassed that of other Asian countries. The 1.87 billion dollar inflow for the year 1985 was among the highest levels for developing countries. (Footnote 3) (For Brazil, the direct capital investment inflow exceeded 2 billion dollars a year in the early 1980's. See the World Bank: "World Development Report, 1985," Chapter 9, the Zhongguo Caijing [China Financial and Economic] Publishing House 1985 edition) This can naturally be

attributed to the interaction of many domestic and foreign factors; the factors of crucial importance undoubtedly include the Chinese Government's opening up policy, the attractiveness of China's vast domestic market, and the relatively good economic environment created by reform and rapid growth.

However, the quality of foreign investment introduced has hardly been satisfactory. Considering the industrial structure, foreign capital has mostly been invested in nonproductive sectors, like tourism and real estate; and in ordinary industrial sectors, like light industry, the textile industry, household electrical appliances, and other consumer goods, and building materials very little has been invested in these most preferred sectors, and this is incompatible with China's industrial policies. Considering technology, the overwhelming majority of foreign-capital enterprises are of the labor-intensive, low-technology type, and this situation is far from the contemplated goal of assimilating advanced technology and management techniques. Moreover, the majority of enterprises are of the domestically oriented type; their ability to export products and earn foreign exchange is poor and they have done little to improve our balance of payments situation. The above-mentioned conditions are very closely connected with the lack of maturity characterizing our earlier policies regarding opening up. Many criticisms have been voiced in China and there is a call for improving quality by strengthening the control of the pattern in foreign investment.

While there is domestic discontent with the quality of foreign investment, foreign businessmen's discontent with the investment environment is also growing. Signs of a slump in investment began to appear at the beginning of this year. The inflow of foreign capital has slowed down markedly, with the agreed amount of direct investment for the first half of this year falling short of the amount for the same period last year (1.24 billion dollars). Many inherent conflicts have begun to emerge and intensify. The cooling of the macroeconomic environment aggravated the deterioration of the investment environment. Some foreign-capital enterprises encountered serious difficulties. A minority of them are facing the prospect of closing down, and some foreign firms are considering leaving. The increase in conflicts and the negative demonstration effect will naturally affect the confidence of incoming and would-be investors, thus reducing the inflow of foreign capital, or even possibly triggering a surge of foreign capital withdrawals.

II. Medium- and Short-Term Factors Affecting the Absorption of Foreign Capital

Generally speaking, in an open world economic system both international and domestic factors will affect a country's absorption of foreign capital. But judging from the current situation in China the influences of our domestic policies are apparently playing a leading role. We can see that the second oil crisis of 1979-82 and the global economic depression in the several years that followed did not seriously affect China's absorption

of foreign capital. On the other hand, the overheating of the domestic economy, which started near the end of 1984 and continued into 1985, as well as the cooling of the economy in 1986, have more seriously affected capital inflow and also the coastal open-economic regions, including the special economic zones. We can thus conclude that the current slump in absorbing foreign investment is mainly caused by domestic factors. In the following analysis we will categorize them into short-term, medium-term, and long-term ones, corresponding to time spans of 1 year, approximately 5 years, and a longer period, respectively.

1. Short-term factors: The contraction policy

In the short-term, the all-around contraction policy which embraces monetary contraction, fiscal contraction, and the tightening of administrative control, and whose implementation began in mid-1985, has drawn the strongest response from all quarters. Because our macroeconomic management departments have not mastered the techniques for administering modern economic policies, and more importantly, because China lacks a microeconomic foundation conducive to indirect regulation and control, this economic policy can be termed a control contraction policy with a strong administrative bias.

This incongruous policy has also strongly affected the externally-related sectors of the economy. Beginning in 1985 the foreign trade deficit rapidly deteriorated (widening from 1.27 billion yuan in 1984 to 14.9 billion yuan in 1985), foreign exchange reserves decreased, and the balance of payments situation deteriorated. Thus, the state was forced to adopt more austere control over trade and foreign exchange policies, hoping to alleviate the balance of payments disequilibrium by restricting imports and thus reducing the foreign exchange outflow. Regarding foreign investment, the responsibilities of examining and approving foreign investment projects, which were assigned to local governments, and the responsibility of granting foreign exchange loans under certain specified limits, which was assigned to local branch offices of the Bank of China, have been recalled. Moreover, the provision of foreign exchange to aid local and foreign-capital projects has been reduced and the relevant bodies are required to attain a balance in the use of foreign exchange by their own efforts. This has created financial difficulties for many processing and assembly-type enterprises and import substitutes enterprises. Moreover, our fiscal and monetary policies have discouraged foreign investment; cutting back investment projects and tightening the money supply have made it difficult for many foreign investment projects to raise funds domestically. Because it took time for the policy to take effect, the contraction effect was not fully revealed until the beginning of 1986. A peak in foreign capital inflow appeared as late as in 1985, so that in contrast, the sudden fall in 1986 appeared to be relatively substantial.

An appraisal of the contraction policy can be more extensively discussed. In short, we should acknowledge both its good and bad sides. On the one hand, its effects have been more or less correctly oriented; namely, in the short term, the main orientation of a policy to tackle a disequilibrium

in aggregates should be to curbing aggregate demand, and in a transitional period it is reasonable even for such a policy to be administratively biased. On the other hand, there is considerable room for improvement; technical questions like policy flexibility, the extent of control, and the appropriate policy mix should be reflected upon and discussed, so that in the future operations can be made more meticulously.

2. Medium-term factor: Economic fluctuations

Considering the medium-term, contraction and the subsequent slump are closely related to the kind of economic fluctuations peculiar to socialism; this mainly refers to the investment-industry cycles. Foreign capital inflow is directly related to foreign-trade cycles. Many people have begun to pay attention to the first category of cycles: During the 34 years between 1952 and 1985, 7 rounds of simultaneous fluctuations in investment and industry appeared in China; each peak lasted some 2 years, followed by a trough; and successive peaks were 5 to 6 years apart. (Footnote 4) (See Liu Shucheng: "Initial Study of Cycles in Investment in Fixed Assets in China," in JINGJI YANJIU, No 2, 1986; Yang Mu: "Factors Affecting the Rate of Industrial Growth," in ZHONGQINGNIAN JINGJI LUNTAN [CHINESE YOUTH ECONOMIC TRIBUNE], No 5, 1985; and Xu Li: "Industrial Structure and Investment," in JINGJI YANJIU, No 9, 1986) Here, suffice it to say that this cyclical phenomenon in China and Eastern European countries resembles the medium-term [zhu-ge-la 2612 2706 2139] cycles in the Western market economies in form only, but is vastly different in its inherent mechanism. It is basically caused by internal factors, which include instability due to the interaction of investment and economic growth, namely, the accelerator-multiplier interaction, and include institutional factors, like the cycles described by Ke-er-nai (4430 3643 1143), which begin with an expansion of investment caused by a thirst for investment, followed by coercive control by the macroeconomic management authorities; this is like "stepping hard on the accelerator" followed by "abrupt braking." (Footnote 5) (Ke-er-nai 4430 3643 1143): "The Economics of Shortages," Chapter 9, the Jingji Kexue [Economic Science] Publishing House 1986 edition).

Fluctuations in foreign trade and peak activities in imports have even more directly affected foreign investment. Over the 30 years or more after founding of the PRC and the growth rate in imports and exports has also fluctuated like investment-industry cycles. Before the 1980's, China's economy was a closed one, and so these fluctuations largely arose from domestic economic fluctuations. The two latest peaks occurred in 1979-80 and 1984-85 respectively, and obviously they were directly related to the above-mentioned investment-industry cycles. The usual process is: Domestic growth is supported by imports, which in turn are backed by exports; and subsequent to a peak in imports, they will usually be greatly reduced to achieve a balance of payments equilibrium and replenish foreign exchange reserves. Because around 1979 the work of absorbing foreign investments had just started, the penultimate fluctuation in imports and exports did not greatly affect that work. Prior to the 1984-85 peak in

imports and exports, the accumulation of foreign exchange reserves had reached a relatively high level. But because imports increased overly rapidly, a major contraction occurred in trade and in the area of foreign exchange policy, strongly affecting the foreign investment arena. Considering foreign investment, many enterprises are already in an operational stage, so that they have come into more realistic contact with the economic and financial environment and respond more sensitively to relevant policies.

III. Long-Term Factors Affecting the Absorption of Foreign Capital

In the long-term, certain basic policies and institutions affect the absorption of direct foreign investment more fundamentally and significantly.

1. Policies (strategies) concerning the development of the externally-related sectors of the economy:

Growth theories classify policies concerning the development of the externally-related sector of the economy into the export-led type (externally-oriented type) and the import substitution type (internally-oriented type). Import substitution often implies adopting internally-oriented policies like overvaluing the domestic currency's exchange rate and increasing protectionism. Conversely, export-led development implies adopting externally-oriented policies like devaluing the domestic currency, reducing protectionism, stimulating exports, etc. Growth theories purport that export-led development is generally better than import substitution. This argument is amply supported by various countries' experience in economic development. Examples of success in implementing export-led development strategies are numerous, whereas countries adopting internally-oriented development strategies often have many problems.

Although import substitution is considerably attractive to large countries undertaking industrialization, it involves many inherent contradictions which are difficult to resolve. From the viewpoint of absorbing investment, export-led development leads to an investment environment which can extensively and steadily attract investment, because if the export sectors are to play a leading role, domestic price aberrations and overvaluation of the domestic currency's exchange rate must be corrected to raise the implicit value of export activities and make the exporting business more lucrative. Moreover, tariff rates must be lowered, and control over the intervention in import and export trades must be reduced so that the relevant enterprises can come into more direct contact with the world market, freely purchase the necessary materials, equipment, and technology, and increase their own competitive ability in the international market. Thus, various obstacles to foreign capital inflow will be correspondingly removed and an investment environment which is advantageous to both domestic and foreign investors, and to both domestic and overseas marketing, will be created. In the case of import substitution only some specified

sectors can attract investments because that strategy does not require the removal of all trade restrictions but merely requires the implementation of structural protectionist policies compatible with import substitution. In general, import substitution is still protectionist in nature. It involves many restrictions on the activities of foreign capital, which can usually only enter the substitution industries or export sectors.

Examined from various angles, China's current development strategy tends toward import substitution. Policies concerning the externally-related sectors of the economy are mainly internally oriented. And it is only after the adoption of the opening up policy that some windows have been opened to foreign-capital enterprises and coastal cities, and the degree of protection has been reduced in some arenas. Over many years in the past, our tendencies in trade were favorable to imports, and the export stimulating measures we have adopted are still incapable of reversing the tendencies in trade. (Footnote 6) (Huang Fangyi: "Current Constraints on China's Introduction of Foreign Investment, Externally-Related Economic Activities, and Foreign Trade, and Tentative Ideas on Improvement," in JINGJI YANJIU, No 12, 1985) Nevertheless, changes in our exchange rate policy have been initiated. Between 1981 and 1984 the dual exchange rate system was implemented. Since 1985 the single exchange rate system has again been implemented, frequent devaluations have been carried out, and we are advancing in the orientation of correcting the overvaluation of our currency's exchange rate. Overall, the prospects are good but problems are numerous. Considering the strategy of developing the externally-related sectors of the economy, the design of a complete set of well-coordinated policies is still out of the question. There is neither a perfect and elaborate import substitution strategy, nor are there plans for shifting to an externally-oriented development strategy. Many practical measures are in mutual conflict. Therefore, we can say that the current situation in foreign investment absorption has resulted mainly and precisely from the currently poorly developed development strategies. The poor investment environment is an inevitable result and conflicting policies have merely aggravated the inherent contradictions.

2. The exchange rate policy and the foreign exchange management system

Adjusting the exchange rate can be a powerful means of achieving a balance of payments equilibrium. A change in the exchange rate means an overall readjustment of the relative prices of goods and services at home and abroad. It both directly affects a country's balance of payments and extensively affects the domestic and overseas markets through the price mechanism. Moreover, the exchange rate policy is also the core of a country's development strategy. It crucially determines whether the economy is internally-oriented or an externally-oriented development strategy is practiced and it is of practical significance to a shift in strategy. Therefore, it is not only frequently recommended as a good policy for improving the balance of payments but is also regarded in the economics of growth as the crucial links in a set of schemes for changing to an externally-oriented economy. Currently, China's positive initiative in pursuing the devaluation policy precisely reflects the government's adherence to opening our economy.

The effects of the exchange rate policy on absorbing foreign investment are more complicated than questions of trade. Generally speaking, the effects of a devaluation are two-sided. On the one hand, it can help correct price aberrations caused by the overvaluation of the Renminbi, and it is conducive to a correct evaluation of foreign investors' assets, to lowering their long-term investment costs, and to an increase in their propensity to export. On the other hand, a devaluation will to a certain extent affect foreign-capital enterprises in the short run, generating rises in production costs and prices of domestically marketed products in the case of import substitution projects, and thus lowering their competitive ability in the domestic market. The foreign-capital enterprises' foreign exchange profits, computed domestically in Renminbi, will correspondingly fall. Therefore, when a devaluation pushes the general level of domestic commodity prices up, (the main mechanism being that the higher prices of inputs push domestic production costs up) the economic environment will become less favorable to foreign-capital enterprises, which will face greater risks in construction and operations. This policy will affect different categories of foreign-capital enterprises differently. Generally speaking, it will affect jointly-owned or operated enterprises more seriously than solely-owned ones, and will adversely affect internally-oriented enterprises rather than externally-oriented ones. In general, foreign businessmen dislike both overvaluations and devaluations of the host country's currency, but hope it can remain stable in value and hope for a sustained, steady, and open exchange-rate policy. Because direct investment is relatively immobile and a developing country's imperfect financial system provides very few means for evading risks related to the exchange rate, any instability in the exchange rate will greatly increase the risks of investment and deter many investors.

To many foreign firms effects of changes in the exchange rate are not the most important thing because there are invariably some methods for reducing risks and effecting remedies. The foreign exchange management system is of greater importance. Foreign firms regard the mobility of capital--the transfer of capital and profits out of the country--as a basic safety factor. Overly strict controls and an excessive number of restrictions are considered features in a bad investment environment. Under China's current direct foreign exchange control Renminbi funds cannot be freely converted into other currencies and foreign-capital enterprises are subject to certain restrictions in transferring capital and profits out of China. Moreover, foreign-capital enterprises are excluded from our domestic resources allocation system and it is difficult for them to obtain funds through our domestic foreign exchange and financial systems. This has caused many conflicts; foreign exchange controls are now a major obstacle to the inflow of foreign capital.

Moreover, the exchange rate policy will be effective only if it is coordinated with a reform in foreign exchange management. In recent years China's devaluation policy has not produced the desired effects. This is not only because of the macroeconomic climate, the trade pattern, etc., but is also directly related to the foreign exchange control system. The

effects of a devaluation can be fully developed only through regulating the exchange rate mechanism, but foreign exchange control inhibits or weakens the regulatory functions of the exchange rate mechanism. In mid-1985 Professor Zou Zhizhuang predicted that if foreign exchange controls were relaxed equilibrium could be attained with an approximately 30 percent decrease in the exchange rate. (Footnote 7) (See SHIJIE JINGJI DAobao [WORLD ECONOMIC INFORMATION], 15 July 1985) From early 1985 to July 1986 the quoted price of the Renminbi had fallen 32 percent, but equilibrium was not attained (this was indicated by the continuing rises in the grey market and black market exchange rates). The crucial reason was that there was no corresponding reform of the foreign exchange management system. From the viewpoint of efficiency foreign exchange can be rationally allocated only when it is flowing. Only thus can the quoted price approach the equilibrium exchange rate. However, the existing foreign exchange management system precisely precludes a horizontal flow mechanism. Therefore, the black market for foreign exchange is actually a passive substitution market arising from foreign exchange controls.

3. Protectionist policy and market strategy

Over many years in the past, China has been practicing an all-around and high-powered protectionist policy. This has been effected mainly through tariffs, import and export controls, other trade policies, and a blockade of the domestic market. Obviously, this high-powered protectionist policy directly hinders foreign capital inflow. In view of the need for opening our economy this policy has undergone some modifications since the 1980's. The principal ones are a partial reduction in the extent of protectionism; tax exemptions granted to foreign-capital enterprises, special economic zones, and imported technological projects regarding certain specified imported inputs; and permitting foreign-capital enterprises to sell their products in China. These modifications basically serve to complement other import substitution measures.

According to growth theories protectionist policies should be coordinated with development strategies. Under the import-substitution regime well-coordinated, flexible methods of protection should be adopted, namely, high-powered protectionism should be practiced in the substitution arenas alone. Intermediate and mild protectionism should be practiced in other arenas in light of the degree of domestic industrial development. Then, with the accomplishment of the substitution process, new substitution industries should be selected, the scope of protection should be readjusted, and substitution should thus be upgraded. This meticulously planned policy providing for the multi-stage advance of protectionism is a prerequisite for success in import substitution. When exports begin to assume a leading role, however, the degree of protectionism should generally be reduced, so that conflicts in trade can be reduced and reciprocal rights to preferential treatment in trade can be secured. Moreover, domestic enterprises' ability to gear themselves to the international market and compete with their rivals can be strengthened.

To foreign investors the externally-oriented development regime is most advantageous because it minimizes the obstacles to investment and creates a relatively stable investment environment. Singapore and Malaysia have thus attracted a huge capital inflow. The internally-oriented development regime is less satisfactory because it implies using special measures to overcome obstacles to investment under the precondition of the existence of general protectionist tendencies. This will have certain side-effects on both foreign firms and the host country. Moreover, the activities of foreign capital are generally restricted in many ways and changes in the substitution industries will also destabilize the investment environment.

Currently, China is roughly in an early stage of import-substitution development and the import substitution arenas are mostly consumer goods industries. But the trend of increasing the domestic production of parts and spare parts shows that substitution is being upgraded. However, flexible protectionist policies incorporating comprehensive planning are not yet available, and the basic situation is that some scattered "windows" have been opened under the system of all-around protectionism. Thus, various stages in the development of substitution are not closely distinguished. Moreover, sometimes trade policies even conflict with substitution and frequently large quantities of imports adversely affect substitution industries. In the face of these self-conflicting practices in China, foreign businessmen naturally feel uneasy about technological transfers and investments.

To the foreign-capital enterprises, our protectionist policy is also prominently reflected in China's market strategy. The existing restrictions on domestic sales actually mean that protectionist barriers have merely been moved from the trading ports to the interior of our country. The issue of proportions limiting domestic sales has always been the most controversial one. Judging from how we implement our domestic strategy, we are in a stage of internally-oriented development and conflicts between China and foreign parties in the domestic market can hardly be avoided. With a shift to an externally-oriented development strategy conflicts on the domestic market will be reduced but conflicts on the international market will increase. Therefore, there is not overall solution. For example, stipulating some uniform proportions governing domestic sales would not work. We can only deal with different cases differently according to the hierarchy of goals in absorbing foreign investment. Special economic zones and other areas being opened up must mainly specialize in exports and concessions granted to them should be limited. For those foreign-capital enterprises that benefit us mainly by technological transfers or demonstration of management techniques, the domestic market should be made more open to them. And in the case of those industries which have accomplished the substitution process the protectionism they have enjoyed should be reduced or even totally removed so that they will be forced to enter the international market.

4. Price aberrations and price management

China is one of those countries in the world where price aberrations are most serious. It is estimated that the losses due to economic inefficiency caused by price aberrations reduce the annual economic growth rate by at least 2 to 4 percentage points. (Footnote 8) (World Bank: "World Economic Report, 1983") The long-term efforts on foreign investment absorption of aberrations in the prices of products and production factors can be summarized into the following: 1) price distortions cause foreign firms to make wrong decisions; resource allocation is irrational; and the benefits of investment are undermined; 2) poor price management causes increases in investment costs and adversely affects the prospects for investment.

In the pricing of factors, currently factor markets in the genuine sense are nonexistent in China. Factor prices are either stipulated by the government or manipulated by monopolistic suppliers and can hardly reflect the relative scarcity of various resources. Because capital markets do not exist, in assessing an enterprise's capital one can only take its financial worth as a reference and it is very difficult to pinpoint its economic value. In many jointly-financed projects the Chinese side bases its shares on the originally existing assets while the foreign side bases its shares on the new capital injected. If the Chinese side expects that preferential treatment policies will allow it to enjoy greater compensation it will usually settle for a transaction in which its own assets are undervalued and the other party's assets are overvalued. Later, if any disputes arise it will be difficult without factual data for one party to acknowledge the value of the other party's assets. Because markets do not exist real interest rates in China have remained unreasonably low over many years. This has lowered the threshold of viable investments and thus helped generate an excessive demand for credit in China. When foreign investors' projects raise funds domestically this diverts resources from domestic enterprises and aggravates the shortage of funds, and may even lead to capital outflows. Owing to a lack of labor markets, standard wages are often simplistically determined by taking wages for similar types of work abroad as a reference. Thus, domestic wages fail to reflect the opportunity costs of domestic labor so that in the special economic zones and coastal regions China's advantage of low wages is disappearing. Moreover, the intermediary organs' excessive withdrawal or retention of enterprises' profits has caused discontent among both employers and employees. In short, defective factor markets make factor prices deviate seriously from their true values. This directly affects foreign-capital enterprises' costs and benefits and causes enormous losses in efficiency.

Moreover, product price distortions lead to disorder in the foreign investment pattern. Large sums of foreign capital have been invested in real estate, tourist services, and ordinary manufacturing industries, instead of the preferred sectors. This is directly related to aberrations in the domestic price pattern. Worse still, prices lack regulatory flexibility and are unable to sensitively respond to conditions of demand

and supply (by falling, in particular). Thus, price signals fail, to a considerable extent, to function as indicators. For example, although signs of an excess supply of high class hotels have appeared in China, building such hotels is still considerably attractive to foreign firms because hotel room charges have remained high. In Shenzhen, where the degree of development of markets was the highest in China, despite the highly evident contraction in demand and the resultant glut of hotel rooms, it was difficult for prices to fall rapidly. (Footnote 9) (Chen Zhaobin: "Market Models and Pricing Reform Problems of Special Economic Zones," in JINGJI YANJIU, No 4, 1986)

Furthermore, what has been most striking to foreign businessmen is the high inflation rate in recent years in markets for commodities for foreign nationals. According to rough estimates that rate has been several times as high as the rate of increase in domestic commodity prices. This means greatly increased costs in investments to foreign firms and costs of living to their personnel residing in China. Big cities like Beijing are now among those cities in the world where prices are highest. Some hotels there charge prices above standard international levels. These kinds of problems frequently irritate foreign businessmen, and therefore draw the greatest response and cause the largest number of complaints. The resultant rise in investment costs has become an immediate menace to the prospects of absorbing foreign capital. These serious price aberrations are extremely closely related to the price management system. Currently, the overall domestic situation of prices set by the government is still relatively prevalently maintained in those sectors where markets are lacking, while control over pricing has been relaxed in the majority of sectors. The imperfection of competition and market rules makes the demand side lack contending power. Therefore, the existing pricing system is actually characterized by a mixed pattern of coexistence of sellers' monopolistic price setting and prices set by the government. This situation is the root of price rigidity and it readily gives rise to malpractices like neglecting quality, cheating and taking advantage of customers, etc. In the sectors related to foreign nationals the strongest reaction concerns China's dual pricing system whereby different prices are charged to Chinese nationals and foreign nationals. This system is criticized as being discriminatory against foreigners in terms of prices and is blamed as the chief culprit leading to high inflation rates in markets for commodities for foreign nationals. Actually, the influences of the domestic pricing system also permeate these markets. Wanton price rises and the unreasonable charging of fees are often started by monopolistic enterprises and organizations and this promotes the trend of high inflation rates in markets for commodities for foreign nationals.

5. Limitations of the special preferential treatment policy

The special preferential treatment policy is the leading method by which China attracts foreign investment. This chiefly refers to two parallel sets of measures: Giving preferential treatment to foreign firms, and

giving local governments special powers. This is closely related to China's starting point in opening the economy, namely, the experience of setting up and operating special economic zones. After several years' experience this policy has been extended to the opening-up regions of Hainan and 14 coastal cities. It can be said that the special preferential treatment policy is nearly synonymous with opening up. Precisely because of this experience the currently prevailing opinion in China on improving the investment environment is that implementation of the special preferential treatment policy should be increased.

To judge this opinion objectively we should view it from the opposite angle and examine the limitations and side-effects of this policy. The practice of the special economic zones has amply demonstrated the limitations of the policy. The observed limitations include at least the following: 1) Functional limitation: Special economic zones are relatively suitable for fulfilling lower-level functions like absorbing funds, increasing employment, and promoting exports, but are not suitable for fulfilling high-level goals like introducing and spreading advanced technology and management techniques. Aside from the condition of their resources, the isolation of the special economic zones also conflicts with the function of spreading and demonstrating advanced technology and management techniques. 2) Institutional limitation: Considering the background behind setting up special economic zones there are profound conflicts between foreign capital enterprises and our domestic system; a rationale behind setting up special economic zones is that some requisite system serving as a protective screen can perhaps help provide a relatively suitable environment for the activities of foreign capital. Practice has demonstrated that the special economic zones (like Shekou) can succeed in some respect, but absolute isolation is impossible. The influences of the domestic system are pervasive. For example, conflicts between local authorities and government departments cannot be eliminated easily even in the special economic zones. 3) Limitation by general policies: Our domestic macroeconomic policies, general policies, and institutions affect the special economic zones also. Moreover, they are more powerful than special policies in their effects. A considerable proportion of these effects should be regarded as normal. Special policies should not conflict with them. It is difficult to imagine the special economic zones doing what they like in the realms of currency, fiscal matters, foreign exchange, exchange rate, tariffs, etc.

Considering the preferential treatment policy, China mainly resorts to tax concessions and profit-delivery concession measures. Currently, the income tax rates applicable to foreign-capital enterprises in special economic zones and open-economy cities are lower than tax rates in various other Asian countries and areas, while elsewhere in China the tax rates applicable to foreign-capital enterprises are in the lower-middle range. Tax and profit-delivery concessions are in line with other customary practices of China. Their effects on domestic enterprises are greater, but their effects on foreign firms differ according to their mother countries' tax laws.

Because there is no provision for avoiding double taxation foreign firms from developed countries tend to attach less importance to these measures, which, however, more considerably affect investors from free-port areas like Hong Kong. Actually, this kind of preferential treatment often amounts to a less important factor that investors will consider in their decisionmaking only after considering certain top priority factors and finding them all right. Moreover, tax and profit-delivery concessions distort the market mechanism. They undermine economic efficiency by lowering the threshold of viable foreign investment and providing financial protection. They will stimulate the importation of poor-result projects and encourage domestic enterprises to avoid taxation by undertaking joint ventures.

Considering the progress in opening up, since 1984 China has changed from relying mainly on the opening up of window-like special economic zones to the general opening up of entire coastal regions or even inland regions. Under this situation the above-mentioned limitations of the special preferential treatment policy have become more conspicuous. Obviously, therefore, the policy can hardly represent the main line of attack in improving the investment environment.

The actual long-term factors affecting the absorption of foreign capital are not limited to those analyzed above. The influence of our domestic economic system is of paramount importance. In a narrow sense, the foreign investment projects management system controls the forefront of foreign investment absorption--the quantity and quality of foreign capital inflow--while the foreign-capital enterprise management system directly affects the terminal end of foreign investment absorption, that is, the success or failure of the operation of foreign-capital enterprises. In the broad sense, the prospects for foreign investment absorption depend on the extent to which the domestic economic system can accommodate foreign-capital enterprises coming from market economies and many contradictions in the realm of foreign investment are rooted in institutional conflicts arising from differences in economic systems. This further reflects the more extensive and profound conflicts between different social and political systems and between different cultures.

IV. Ideas and Suggestions on Improving the Investment Environment

The above analysis shows that the opening up drive has entered a period of relative stability. Both the Chinese and foreign sides have cooled down after undergoing an earlier period of excitement. They have gradually discarded the romantic thinking of the earlier period and entered a stage of being more realistic. They have to handle things more pragmatically and patiently.

Considering short-term countermeasures the general contraction policy which is as sweeping as cutting something with a stroke of a knife should be appropriately relaxed and should be replaced by some structural readjustment policy, a policy to deal with different cases differently which

should apply to the foreign-capital enterprises in special economic zones, open-economy coastal regions, and inland regions; the general contraction policy should not be applied to them. Moreover, an atmosphere of mutual understanding should be created through communication between the two sides. The foreign-capital enterprises should be positively helped to resolve practical difficulties. Thus, depressive effects can be alleviated or eliminated and the situation can be stabilized.

More importantly, we must focus our attention on long-term development, shift the focus of our policies so that they will embody a long-term orientation, shift our attention to the realm of general policies, and strive for a basic improvement in the investment environment through a genuine improvement in the overall environment, and thus more closely integrate the use of foreign capital with reform and the long-term development process.

1. We should formulate and perfect a positive strategy for developing the externally-related economic sectors. Whether China can take the part of "taking trade as our national economic foundation" should perhaps require in-depth study, but it is now a general development trend in opening up that economic intercourse with foreign countries should no longer be in a subordinate position and export sectors should play a greater promoting role. Only by building externally-oriented economies in the coastal regions can the investment environment there be basically improved. In this regard, it is necessary to perfect our import substitution strategy, and promote the advance of import substitution to higher levels by means of meticulous substitution plans and flexible corresponding protection policies. We should also vigorously design a readjustment strategy for shifting to export-led development and effect an overall or partial shift in strategy at a suitable time.

2. Floating exchange rate and opening the foreign exchange market: The long-term orientation of our foreign exchange policy should be a shift to a managed floating exchange rate system. Under the existing fixed exchange rate system we should adopt the guiding principle of maintaining stability against the background trend of devaluation. In the near future, the quoted exchange rate should preferably be kept stable. This will help relieve the pressure of rising domestic commodity prices, improve our balance of payments, and also stabilize the foreign investment situation. It is important that we should also correspondingly reform the foreign exchange market and permit the use, within specified limits, of quotas, cash in foreign currencies, and foreign exchange conversion certificates to settle transactions. At the same time, moreover, we should permit banks (including foreign-capital ones) to participate to a greater extent in providing foreign exchange on the foreign exchange market. Thus, the effective floating of the exchange rate within appropriate limits can be achieved, the exchange rate mechanism's functions can be developed, and the problems of a shortage of foreign exchange and disequilibrium in foreign exchange can be solved easily.

3. Improving price management and curbing cost increase: Correcting price aberrations in coordination with our pricing reform is of crucial importance to bringing about a closer integration of foreign capital with the domestic economy. Under the current situation of pricing we can consider the following: 1) checking up on unreasonable charges levied on foreign-capital enterprises; 2) setting ceilings on charges for basic services, and vigorously improving the quality of services before abolishing the dual pricing system whereby different prices are charged to Chinese nationals and foreign nationals; 3) adopting necessary anti-monopoly measures, reorganizing monopolistic service agencies that deal with foreign nationals, and controlling their standard charges; 4) appointing or setting up agencies for dealing with complaints by foreign firms, and promptly reducing conflicts; and starting a study on the question of existence or abolition of the dual pricing system whereby different prices are charged to Chinese nationals and foreign nationals.

4. Improving the foreign investment management system and improving efficiency in management: In dealing with the foreign investment projects management system, we should mainly put in order the situation of management by many different authorities, and create a system whereby in policy formulation a number of bodies participate in discussions but only one body has the final say. At the central government level the Economics and Trade Ministry or some other specially appointed body can take charge and other comprehensive departments like the State Planning Commission, State Economics Commission, the Finance Ministry, the Banking Ministry, etc. can be requested to participate. Considering the foreign-capital enterprise management system different methods can be designed according to the grade attained in opening up and the number of local foreign-capital enterprises. The Shekou model can be widely applied to opening-up areas. In the case of coastal cities special management bodies can be set up at the municipal level to reduce excessive intervention at intermediate levels and safeguard the enterprises' decisionmaking power over operations, while the industrial and commercial management, financial, and tax revenue departments can strengthen the supervision of their operational and financial activities.

5. Formulating foreign industrial investment policies and channeling the flow of foreign capital: In order for foreign capital to more enthusiastically participate in priority industries and export sectors, corresponding foreign industrial investment policies should be formulated under the framework defined by general industrial policies to overcome the distortions which are caused by market imperfections in the signals guiding industrial investment. These policies entail resolving two basic questions: 1) specifying the priority sectors (or industries); and 2) formulating measures to encourage foreign capital inflow. Before the launching of detailed industrial policies, dialogue and cooperation between the government and the enterprises can be strengthened and the trial and error method of fine-tuning can be used to handle matters.

6. Strengthening the comprehensive study of international capital and promoting diversification in the ways of using foreign capital: Although this article mainly discusses direct investment by foreign firms, it does not mean that this is the most ideal way of utilizing foreign capital. Experience in the international arena shows that the long-term effects of direct investment on the host country are dual-natured and more complicated. Currently, China does not yet have strategic plans concerning the pattern of use of international capital. This loophole may give rise to some hidden dangers and must be plugged as soon as possible. We should fully exploit many forms of international capital flow, including indirect investment (investment in securities), various categories of loans, international transfers (aids), etc. This will help to bring compatibility and coordination between the goals and the means of foreign investment absorption and help to reduce the side-effects of foreign investment absorption so that the opening up policy can attain a higher degree of maturity.

Postscript: In revising this article, the authors have used as a reference documents on the seminar on "The Investment Environment in China's Coastal Cities and Methods of Evaluation" (held on July 1986 in Xiamen), particularly the theses presented by scholars from Hong Kong, including Professor Min Jianshu, Mr Zeng Shuji, Mr Hu Dun-ai, Mr Tan Zhaozhang, Dr Cai Junhua, Dr Xue Fengxuan, etc. We wish to express our sincerest thanks here.

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CS0: 4006/532

FOREIGN TRADE, INVESTMENT

PRC SETS UP ENTERPRISES IN FOREIGN COUNTRIES

OW272002 Beijing XINHUA in English 1439 GMT 27 Feb 87

[Text] Beijing, 27 Feb (XINHUA)--At the end of 1986, China had set up 277 enterprises in other countries, and in Hong Kong and Macao.

The total investment to start up the enterprises was 407 million U.S. dollars, of which China contributed 230 million U.S. dollars.

The projects are distributed over 50 countries and regions and include natural resource utilization, industrial and agricultural production, traffic, financial insurance, consultation services, medical care, hotels, and tourism.

Ocean fishing cooperation with foreign countries is the focal point of China's investments. To date, projects have been started with Guinea, Guinea-Bissau, Sierra Leone, and Senegal.

Last year 16 joint ventures and projects China has placed in the United States have started production.

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CSO: 4020/160

FOREIGN TRADE, INVESTMENT

PRC REDUCES JOINT-VENTURE PROJECTS EQUITY LEVELS

HK050313 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English
5 Mar 87 p 3

[Article by Olivia Sin]

[Text] China has reduced the level of equity required to be put up for small joint-venture projects and increased the level for larger projects.

A regulation specifying the debt/equity ratio in joint ventures, co-operative ventures and wholly foreign-owned enterprises was published on Sunday.

It replaces a controversial internal directive issued by Beijing at the end of 1985 which required 100 percent equity to be put up for all investment projects of less than U.S. \$3 million.

Under the new law, investors are required to put up 70 percent of the project cost in registered capital and the remaining 30 percent can be raised by bank loans.

Critics of the old directive requiring 100 percent equity said it had killed many promising and potentially valuable small projects.

On the other hand, the new law has increased the equity requirement on projects worth more than \$10 million.

The percentage of equity required for projects worth between \$10 million and \$30 million has been raised to 40 percent from 33.3 percent, and for projects worth more than U.S. \$30 million the percentage has been increased to 33.3 percent from 25 percent.

But the equity requirement for medium-sized projects of between \$3 million and \$10 million remains unchanged at 50 percent.

Owen Nee, a China law specialist at Coudert Brothers, said the most significant point of the new regulation was that an internal directive had been made public through the promulgation of the law.

But he said he did not consider it desirable for China to impose a rigid debt/equity ratio on different kinds of projects.

He suggested it would be better to let the banks decide how much they wanted to lend, depending on the security of the projects.

It is believed Chinese officials had been perturbed by the disproportionately small amount of registered capital put up by foreign investors in some joint ventures and this led to the formulation of the debt/equity ratio.

"If the amount of registered capital is small, the risks borne by foreign investors will be minimal and in turn the Chinese side will have to shoulder a higher risk," according to Chinese officials.

However, other legal sources said it was possible to apply for an exemption from the debt/equity ratio if sound reasons were provided.

Applications for exemption must be made to the Ministry of Foreign Economic Relations and Trade and the State Administration of Industry and Commerce, which is responsible for enforcing the debt/equity regulation.

The law also stipulates that any extra investment added to existing foreign ventures should be in accordance with the new ratio.

The law applies to all investors, whether they are from Hong Kong, Taiwan, or Macao. (Some of China's foreign investment laws give better tax incentives to investors from these areas.)

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CSO: 4020/160

FOREIGN TRADE, INVESTMENT

RESULTS OF IMPORTED TECHNOLOGY EFFECTIVE

OW261122 Beijing XINHUA in English 1101 GMT 26 Feb 87

["Roundup: "Imported Technology Proves Effective"--XINHUA headline]

[Text] Beijing, 26 Feb (XINHUA)--Technology imported to renovate China's existing enterprises has yielded positive economic results.

As a result, enterprises have upgraded their technological level, enhanced their ability to develop new products, and made them more competitive on the international market.

From 1982-1985, the State Economic Commission imported 3,900 technological projects and equipment from 20 countries and regions. An investment of 3.6 billion U.S. dollars was required, and the items have mainly been used to upgrade existing smaller enterprises.

Now two-thirds of the projects are already operational, and the rest will be implemented in the next 2 years. One-third of the imported projects involve software technology and the rest are complete production lines and key equipment.

"As a result of imports, technological development has been accelerated in China's enterprises, which is narrowing the gap between China and developed countries," according to the State Economic Commission.

China's machinery departments have imported 500 technological projects dealing with the production of more than 6,000 products. The quality of 10 percent of the newly-developed products has reached world standards of the late 1970's or early 1980's. Some products surpass current world technological levels, and the quality of one-third of Chinese-produced electronic products manufactured with imported technology parallel those now available on the international market.

Many newly-renovated enterprises in Shanghai, Tianjin, and Dalian have developed their own new products.

Surveys of 10 of Beijing's big industrial corporations showed about 90 percent of the 7,000 types of equipment manufactured with imported technology can

perform as well as those produced in developed countries. In northeast China's Dalian, half of the 500 new products developed in the past 3 years are competitive on the world market.

Product quality improvement has also stepped up China's commodity exports. Technological imports in textiles, including weaving, dyeing, finishing and the manufacture of a dozen pieces of key textile equipment, has greatly raised enterprises' capability to earn more export profits.

The renovated smaller enterprises have played an important role in improving China's domestic consumer goods industry by offering better daily necessity items to consumers.

When all designated enterprises have been renovated, markets will carry a better variety of high-quality consumer goods, including food, clothing and household electrical appliances, to better handle increasing customer demands.

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CSO: 4020/160

FOREIGN TRADE, INVESTMENT

JINGJI RIBAO ON BANK LOANS FOR FOOD EXPORTS

OW021136 Beijing XINHUA in English 0855 GMT 2 Mar 87

[Text] Beijing, 2 Mar (XINHUA)--This year, the Industrial and Commercial Bank of China plans to reduce interest rate charges on a 150 million dollars worth of loans scheduled for enterprises involved in food exports, "ECONOMIC DAILY" reported today.

And special loans worth 200 million yuan will be allocated to the food industry, 40 percent of the loans will be for the development of food processing plants run by food retailers.

The paper explained that commercial food retailers are major processors of agricultural products and that a lot of China's exported food come from these enterprises.

According to State Council's policy of supporting the enterprises run by commercial firms, Industrial and Commercial Bank granted 580 million yuan's loans to these enterprises last year, helping them renovate equipment or import advanced machinery.

An extra output value of 2.35 billion yuan is expected to be brought by these technological renovations before the loans are recovered, the paper said.

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FOREIGN TRADE, INVESTMENT

INCOME FROM TOURISM UP; GROWTH RATE SLOWS

OW260840 Beijing XINHUA in English 0821 GMT 26 Feb 87

[Text] Beijing, 26 Feb (XINHUA)--China received a total of 22.8 million tourists from abroad last year, of which 1.48 million were foreign nationals and 21.33 million were overseas Chinese, according to today's "CHINA DAILY."

The figure for foreign tourists coming to China represented a mild increase of 8.2 percent, dropping below the average increase of 21 percent in each of the last 4 years.

However, the foreign currency income from international tourism rose to 1.53 billion U.S. dollars, up 22.4 percent on the previous year.

The smaller increase in the number of foreign tourists was because the number of Japanese only rose by about 13,000 people, a 25 percent decline on the increase seen the year before.

The main reason for the slackening-off of the numbers was because China's introduction and reception of international tourists was monotonous and did not meet international standards.

Poor service at hotels and by tourist guides in some areas and rise in air fares on a few world airlines also added to the difficulties for the development of tourism in China.

Statistics showed that some 290,000 tourists came from the United States in 1986, an increase of 21.8 percent over 1985, and constituting 19.8 percent of the total foreign tourists in China.

An increasing number of people also visited from Britain, Thailand, Canada, the Federal Republic of Germany, and the Soviet Union.

There were 484,000 Japanese tourists and they continued to constitute the largest group of foreign tourists in China.

Tourists below the age of 30 made up a little over half the total foreign tourists, while the number of those over 51 years old dropped by 7.8 percent over the previous year.

China is taking measures to improve the service for tourists and to diversify tourist programs to meet the needs of foreign travellers.

FOREIGN TRADE, INVESTMENT

RENMIN RIBAO VIEWS ECONOMIC DEVELOPMENT OF HAINAN

HK101240 Beijing RENMIN RIBAO in Chinese 8 Mar 87 p 2

[Article by reporter Lin Xi (2651 2530): "A Trip to the Remotest Corner of the Earth--Further Understanding the Rise of Hainan Island"]

[Excerpts] As in various areas throughout the country, the 6th 5-Year Plan was an important period for Hainan Island, in which it speeded up development and construction, and made greater progress. In counties (cities) such as Haikou, Dongfang, Sanya, Tongshi, Qionghai, and so on, this reporter saw wide streets, clusters of some 5 to 6-storey buildings along the streets, and so on, which were all the products of the 6th 5-Year Plan. Under the guiding principle of the central authorities of readjusting, restructuring, consolidating, and improving, during the 6th 5-Year Plan, industrial and communication enterprises of the whole Hainan district arranged 522 projects with an investment 200 percent higher than that of the 5th 5-Year Plan. Some three-quarters of the projects have been completed and gone into operation. In particular, through raising funds in multilayered and many-channeled ways, construction projects in energy, transportation, telecommunications, and so on have been accelerated. All this has vigorously promoted the economic development of the whole island, and enhanced people's livelihood. The island has increased its contribution to the state year by year, and made great achievements.

Achievements are the driving force for continuous progress. The people of Hainan no longer rest content with "climbing the slope." They demand a "rapid rise." Actually, various kinds of strong points of Hainan Island have not yet been brought into full play, and the rich mineral resources have not yet been turned into assets for the island. In the Li-Miao Autonomous Prefecture, there is still a very great portion of people among the nearly 800,000 people of the Li and Miao nationalities living below the poverty line. When I visited a Li nationality village in Xining township of Datian District in Dongfang County, I saw people there still living in thatched sheds, and leading a poor life with "three stones holding a pot, hanging clothes on a bamboo pole, and making a bed with some pieces of board." Every year, they need a large amount of relief funds provided by the state. Providing them with money and goods is a passive method of "blood transfusion." This method does not considerably enhance the level of production, or thoroughly change

the mode of production. Of the 180 households in the village, some have built tile-roofed houses, and their daily necessities are basically sufficient.

A Good Place for Investment Which Can Bring a Ten Thousand-Fold Profit

The CPC Central Committee and the State Council have made a policy decision on speeding up the construction of Hainan Island. Sanya City will be built into an international tourist city. At present, preparations are being made to build the Fenghuang international airport and Yalong Wan tourist center. But the problems of capital and technical skill have not yet been completely solved, and the progress made in this regard is not fast enough. Actually, Sanya can receive guests in all four seasons of the year, and is a good place for a small investment to bring a huge profit.

We should say that the whole of Hainan Island is an ideal place for investment. Here, crops grow during all 365 days of the year. I learned that it takes 120 days for the Hami melons in Xinjiang to become ripe. But it only takes 75 days on Hainan Island. The rich forest and mining resources here are to be exploited. The fertile grasslands here are good for developing animal husbandry...there is a saying: We can find anything on the island which is available on the mainland. We can also find on the island things which are not available on the mainland. The southern seacoast is an ideal natural greenhouse. When I visited the coastal area in Lingshui and Ledong counties, I discovered that it is the best place for crop propagation. Agricultural scientific workers have paid attention to the area since the 1960's. At present, various parts of the country have sent people here to propagate crops. Some dozens of mu of land are used for this purpose. The area provides a large quantity of improved varieties of rice, corn, and kaoliang for the whole country, and has made great contributions to the agricultural development of the entire country. There are inexhaustible fishing resources in the bays throughout the island. Water temperature is high here, and the difference in temperature is small. It is suitable for the growth and propagation of marine animals such as fish, shrimps, shellfish, and so on. The Ministry of Foreign Economic Relations and Trade has recently allocated 1 million yuan of special funds to develop an export base covering an area of 1,000 mu in the Maniao District of Lingao County for breeding prawns. The project is expected to be completed, and go into operation in May this year.

"Making an investment on Hainan Island" is the heartfelt wish of men of insight. I have learned that about 1.7 million people of Hainan origin are now living in Hong Kong, Macao, and abroad. They show concern for the construction in their native place, and are economically fairly strong. In recent years, thanks to the efforts exerted by governments at all levels of the administrative district to implement the guiding principle of "making use of opening up to promote development," and improve the investment environment, foreign capital on the island is becoming increasingly active. Over the past 2 years, Qionghai County has made use of \$19 million of foreign capital to set up more than 10 "enterprises run by three kinds of capital." British Chinese Lu Yeh-tsan and American Chinese Lu Yeh-kun made an investment of \$10 million to cooperate with the Qionghai County to jointly run a polyester fiber plant

with a yearly production output of 5,000 tons and output value of \$100 million. This can be called a small investment which "bring a ten thousand-fold profit."

More Particular Guidance Than General Call

The people of Hainan Island entered the 7th 5-Year Plan when they were correcting mistakes resulting from the "automobile case." With regard to the guiding thinking, the main tasks and objectives of struggle for the coming 5 years, the CPC Committee and government of the administrative district have made correct analysis and policy decision.

When I was visiting the grass-roots units, I deeply felt that their potential for production is great. Cadres and the people do not rest content with the present situation. A comrade in Dongfang County said: "At present, we hold a lot of meetings and talk a lot, but specific guidance for the grass-roots units is meager." What he said has fully reflected the views of others. Different areas have different conditions. The party and government organs directly under the Hainan Li-Miao Autonomous Prefecture have recently sent 210 cadres down to the 41 poor areas, worked out plans for assisting the poor in order to enrich them, and provided them with loans of 400,000 yuan.

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CSO: 4006/538

FOREIGN TRADE, INVESTMENT

BRIEFS

GUANGDONG EXPORTS LABOR SERVICE--The province made much progress in exporting labor service last year. The province signed a total of 32 contracts on export of labor service, involving some \$6.98 million. The province dispatched some 1,330 laborers to nine countries and regions and earned some \$1.92 million of foreign exchange for the country last year. [Summary]
[Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 20 Feb 87 HK]
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CSO: 4006/538

FINANCE, BANKING

BANK OF CHINA EXPANDS FOREIGN EXCHANGE SERVICES

HK060520 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English
6 Apr 87 p 1

[Article by Olivia Sin in Beijing]

[Text] Heavy losses incurred by Chinese trading corporations because of currency risks have prompted the Bank of China [BOC] to expand forward foreign exchange services to most of its domestic branches this year.

A deputy manager of the foreign exchange department of BOC's head office, Mr Chu Xinqiang, said intensive training in foreign exchange dealing was being conducted for staff from at least 35 branches of BOC.

He told the SOUTH CHINA MORNING POST that drastic currency fluctuations worldwide last year brought about financial losses to the country's trading units.

Most of China's trading transactions are based on U.S. dollars and the corporations did not feel the pinch before 1985 because the U.S. unit was then very strong.

But the depreciation of the dollar coupled with the lack of hedging mechanisms in China had forced many trading corporations to delay payment or amend trading contracts.

Foreign traders selling to China have been alarmed by Chinese corporations' failure to honour their contracts.

Expanding forward foreign exchange services is part of BOC's plan to upgrade its business operations to better serve the country's increasingly sophisticated economy.

Speeding up financial reforms was listed as a major task for the country by Premier Zhao Ziyang in his government report presented to the National People's Congress on 25 March. Mr Chu said BOC and the State Administration of Exchange Control were now drafting rules to regulate forward foreign exchange trading activities.

Currency speculation detrimental to the country's economy would be banned under the regulations, he said.

Mr Chu said BOC was providing the foreign exchange service to protect the trading corporations against currency risks so that they could concentrate their energies on trading matters and help the country generate revenue.

Apart from state enterprises, he said foreign ventures including wholly owned and joint ventures were welcome to use BOC's forward foreign exchange services.

To prevent currency speculation, customers may be required to prove the legality of the source of their foreign exchange on demand.

The regulation is also expected to specify the categories of financial institutions allowed to provide the foreign exchange service.

It is not known whether other Chinese banks such as the Bank of Communications, the CITIC Industrial Bank or the Everbright Finance Co. will be allowed to provide the service.

Mr Chu said some competition was expected and the BOC had decided to levy extremely low charges on clients.

"Our aim is not to make profits but to serve our clients and help them avoid currency risk," he said.

This is a marked difference between the operation of BOC and foreign banks which tend to make huge profits from their foreign exchange dealing activities.

Mr Chu said the head office of BOC started to provide foreign exchange services in 1982 but only 12 forward foreign exchange transactions were concluded that year.

Business accelerated in 1985 and 1986 when 120 transactions worth a total of U.S. \$500 million and 236 transactions worth U.S. \$900 million respectively were sealed.

He predicted that the number of transactions would reach a record 1,000 this year.

Already the number of transactions conducted in the first quarter of this year is equal to the yearly total for 1985. The value of forward foreign exchange transactions, however, was minimal compared with the country's huge imports of U.S. \$32.76 billion, according to figures provided by the Ministry of Foreign Trade.

"In general, there is a lack of awareness among our clients of the necessity of hedging against currency risks...we plan to step up our promotion campaign this year," Mr Chu said.

At present only the head office equipped with advanced data collection and telecommunication facilities was allowed to do direct foreign exchange trading activities with BOC's overseas branches.

All the domestic branches of BOC had to refer all their forward foreign exchange cases to the head office in Beijing because they were ill-equipped for direct dealing.

Mr Chu said the head office provided forward foreign exchange cover for 26 major currencies for any time within a year.

The smallest amount accepted was U.S. \$50,000. The fee levied was 0.1 percent of the difference between selling and buying prices. Various kinds of formats such as spot trading, futures, swaps and data option were provided.

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CS0: 4020/159

FINANCE, BANKING

SHANGHAI NPC DELEGATE ON CITY'S FINANCIAL AMBITION

OW310809 Beijing XINHUA in English 0713 GMT 31 Mar 87

[Text] Beijing, 31 Mar (XINHUA)--Shanghai, China's largest port city, is trying to become a major financial center in China and throughout the Far East, a deputy to the current National People's Congress said here today.

"To this end, Shanghai is increasing its cooperation with international and domestic financial circles while expanding its own money market, issuing bonds and stocks and intensifying reform," said banking expert Zheng Linsun from Shanghai, which is also China's largest industrial city.

Zheng said he fully agreed with Premier Zhao Ziyang who said tight control and better use of various funds from society are very important.

The banking expert made the remarks after reviewing the government's work report delivered by Premier Zhao Ziyang at the opening of the fifth session of the Sixth National People's Congress last week.

Shanghai was the largest financial center in Far-Eastern Asia 40 years ago, Zheng said, "it now has more than 900 financial and banking institutions run by both Chinese and foreigners in the city."

Shanghai has not only state-run banks such as the People's Bank, the Bank of China, Industrial and Commercial Bank, Agricultural Bank, Construction Bank, and Communications Bank, it also has foreign banks including the Hong Kong and Shanghai Bank, the Bank of East Asia Ltd., the Overseas Chinese Bank of Singapore, and the Standard Chartered Bank of London.

In addition, more than 30 banks and financial institutions from France, Japan, and other countries have set up agencies in Shanghai.

Shanghai has become a pioneer in the nationwide reform of China's banking and financial system. It has formed a new financial structure by establishing a number of financial, trust, investment and leasing companies and credit cooperatives.

Local financial firms have opened short-term money markets and foreign exchange adjustment markets, dealing in bonds, stocks, and foreign exchange.

According to Zheng, the foreign exchange adjustment markets in Shanghai have great potential. There are 222 Sino-foreign joint ventures, cooperative firms, and foreign-funded enterprises along with several thousand China-run factories producing export commodities.

He said these markets open once a week. More than 70 million U.S. dollars in transactions were concluded last year. Foreign exchange mortgages were also signed.

The short-term money market, which was opened by the Shanghai Industrial and Commercial Bank last August, has grown into an important money adjustment center not only for the city but also for the whole country. The volume of interbank lending and borrowing each ranges from several million yuan to over 100 million yuan.

The market has drawn many financial firms and institutions from Beijing, Anhui, Fujian, Guangdong, Jiangxi, Jiangsu, Tianjin, Zhejiang, and other regions. They report their intentions to Shanghai, telling other institutions whether they want to lend or borrow and at what time limits and interest rates.

In return, Shanghai reacts quickly to the request of their counterparts in other cities. Shanghai's financial institutions also operate bill discount business. Some 10 billion yuan in business has been concluded.

Zheng Linsun said the Shanghai Industrial and Commercial Bank launched a new item of business--certificate of deposits--this month, allowing large sums of idle cash in the hands of enterprises to be circulated and gain economic results.

He disclosed that "the Industrial and Commercial Bank will start to issue discount bonds and progressive bonds this year in order to make the money market better raise and adjust funds, guide fund flow and increase economic returns."

The business of money certificates is springing up in Shanghai. Now, seven enterprises are allowed to issue bonds and stocks through banks. More than 200 million yuan worth of bonds have been issued so far.

As an important part of economic reform, Shanghai will expand its borrowing and lending business as well as bill discount and rediscount business while enlarging the scope of foreign exchange adjustment this year.

The Shanghai government will make big efforts to develop urban and rural credit cooperatives, run various kinds of foundations while consolidating short-term money markets and opening up long-term money markets.

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FINANCE, BANKING

EDITORIAL PROMOTES INTER-BANK BORROWING

HK080348 Beijing CHINA DAILY in English 8 Apr 87 p 4

["Opinion" column by Huang Zhizi: "Inter-Bank Borrowing Would Lend Flexibility"]

[Text] Inter-bank borrowing is an important component in reforming a lively short-term fund market. This has been gradually recognized by more and more Chinese banks, but actions to put inter-bank borrowing into practice are slow.

Ma Mingjia, a researcher in the Department of Financial Administration of the People's Bank of China, told CHINA DAILY of the difficulties met by the bank in initiating and establishing inter-bank borrowing in the country.

Since 1985, efforts to initiate inter-bank borrowing have been made time and again. But shallow understanding of the function of inter-bank borrowing in many areas of the country among bank heads hindered its development, Ma said.

Ma said that many people wrongly thought that borrowing funds could increase their flexibility but that lending would decrease their reserves. Because of this, these heads usually welcome money coming in but are reluctant to let their money go out to others.

According to Ma, criticism or complaints often were directed at those banks which started to lend. This led those banks to leave funds lying idle.

Narrow-mindedness also set up barriers between banks of different trades. Ma said that sometimes money would only go back and forth between banks of the same trade--such as construction banks.

The distrust of the ability of other banks to pay back was the third barrier to pushing inter-bank borrowing forward, Ma said.

Many banks created obstructions by increasing insurance requirements, setting strict limits on the amount of money that could be borrowed, and even by elaborate pretexts to refuse any lending. This naturally made the flow of surplus funds very difficult.

According to Ma, the old idea of "eating from the same rice pot" was still exerting its pernicious influence on banks in our country.

'Smaller Pot'

Since 1984, the People's Bank of China has been separated from specialized banks--the Bank of Construction, the Bank of Agriculture, the Bank of China, and the Bank of Industry and Commerce. They have begun eating from separate rice pots and functioning separately. However, the deep-rooted idea of egalitarian wage structures was actually still keeping banks in a situation where they were eating from the same pot.

The practice, Ma complained, was that no matter how many profits or losses one bank made, it would always get the same treatment as the others. Bonuses were always issued with limits fixed and everyone enjoyed the same welfare.

Ma said that, moreover, when a bank made profit from lending out money, it had to hand the profit to its superior--no profit was allowed to be used to increase wages, bonuses or welfare. This system dampened enthusiasm for inter-bank borrowing.

These obstacles have at last been spotted and, according to Ma, research fellows in the Department of Financial Administration have focused attention on solutions to those obstacles. This will be a year of financial reforms which is bound to bring hope for the flourishing of the inter-bank borrowing market, said Ma.

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FINANCE, BANKING

INDUSTRIAL, COMMERCIAL BANK TAKES NEW MEASURES

HK070727 Beijing CHINA DAILY in English 7 Apr 87 p 2

[Article by staff reporter Xie Songxin: "Bank Bids to Improve Cash Flow"]

[Text] The Industrial and Commercial Bank of China is taking new measures to improve the effectiveness of investment and to force industry and commerce to earn more and improve output.

The measures include clearing the stockpiles of slow selling goods by selling them at discount prices. This will increase the circulation of capital by 3 percent this year, a bank official told CHINA DAILY.

Last year, China's banks increased the allocation of loans to the country's industry by 62 billion yuan (\$16.7 billion), an increase of 39 percent over 1985. But the total industrial output value for 1986 only rose by 9.2 percent, according to some sources.

Loans given to industrial enterprises in Tianjin rose by 30.4 percent over 1985 but last year's output value only rose by 5 percent.

The dramatic increase in industrial loans, which has not brought about a comparable increase in output value, is getting urgent attention for the country banks.

According to sources, the big rise in industrial loans in 1986 was due to the increase construction and expansion of plants, at a time when prices of raw materials were high.

Meanwhile, the huge stockpiles of unmarketable goods hold up the flow of cash. At the Yinchuan Electric Meters Plant in Ningxia Hui Autonomous Region, more than 70 percent of products went unsold.

The Industrial and Commercial Bank granted 58.2 billion yuan more capital loans last year than in 1985, an increase of 18.4 percent. It was the highest since the founding of the People's Republic.

Xiao Changxiu, a section chief of the bank, said that her bank will cooperate with the State Economic Commission to sell stockpiled goods and at the same time help speed up the flow of capital.

It will stop lending money to enterprises which are stockpiling unmarketable goods such as black and white television sets.

"Our aim is to help firms switch to other products, improve quality and produce what is wanted," Xiao said.

Xiao expected that industrial and commercial firms will want more loans this year. The bank will solve the shortage by issuing bonds and attracting more savings deposits.

It will sell 10 billion yuan worth of bonds for state-run enterprises and local governments will raise another 10 billion yuan to develop local industrial and commerce.

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FINANCE, BANKING

COMMUNICATIONS BANK RESUMES OPERATIONS

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 3, 12 Jan 87 p 39

[Article by Shi Saizhu [2514 6357 3796]: "Break out of Asia, Face the World: Gu Shuzhen [7357 2885 2823] Discusses the Objectives of China's Communications Bank"]

[Text] China's Communications Bank has over 70 year's history. Recently the bank moved from Beijing to Shanghai, and at the same time the bank established its first domestic branch, the Shanghai Communications Bank. As a commercial bank, how does the bank plan to develop its financial operations in Shanghai? Armed with this question, the reporter paid a visit on Gu Shuzhen who is in charge of the bank's preparatory committee.

The Communications Bank is in a seven-story building in Shanghai's Jiangxi Zhonglu. That building used to house Shanghai's famous Jincheng Bank. The lower three levels of the building are the bank's business and office areas; the next three levels are the bank's headquarters; the top floor has the staff cafeteria, the conference rooms, and other facilities. In the main lobby of this newly refurbished bank are elegant marble statues and glittering chandeliers. In the middle of the room hangs an eye-catching world map with red lights constantly flashing the exact times in New York, Paris, London, Moscow, Cairo, Tokyo, and other major cities throughout the world. This display of readiness to challenge the world is rare among banks in Shanghai.

In an elegant reception room, Gu Shuzhen, who is in charge of the bank's preparatory committee, told the reporter that the Communications Bank was established in 1908. After the founding of the country, a part of the bank's operations was taken over by the Bank of China; the remaining portion was taken over by the Industrial and Commercial Bank, and except for the headquarters in Beijing, and a branch in Hong Kong, all domestic operations were essentially shut down. The recent relocation of the headquarters to Shanghai, the reorganization of the domestic operations, and the resumption of businesses are to satisfy the needs of economic development and the financial reforms. Therefore, the Communications Bank will be unique among the specialized banks, and will appear in the domestic and the international financial arena with a new face.

Gu Shuzhen said, the Communications Bank will be the first publicly held bank, that is, the bank's capital is not entirely dependent on state allocations; instead, funds are raised by issuing stocks to the state, localities, enterprises, or individuals. At present the bank has already raised 2 billion yuan. The Communications Bank's organization is not based on administrative regions, but on economic standards, and branches are located in economic urban centers throughout the country: this is an unprecedented approach in the bank's 37-year history since the founding of the country. He also said that the Communications Bank's scope of business is broad and comprehensive, and is not restricted to special areas like other specialized banks. With respect to capital, the bank handles both long- and short-term funds; with respect to currencies, the bank has RMB as well as foreign currencies. The bank serves both domestic and foreign individuals as well as enterprises. The Communications Bank will use interest rates as an economic lever, and offer its customers favorable terms in every way, from deposits, loans, and discounts, to the issuance of bonds in any currency, and stock brokerage services. Specifically, the Communications Bank will abandon traditional practices and adopt modern scientific management methods. For example, loans will be in the form of collateral loans, and commercial paper discounting will replace traditional forms of credit to promote healthier business and economic developments.

When it comes to the international market, Gu Shuzhen said that the Communications Bank is very much interested in foreign exchange operations. Under the present conditions in China, the bank wants to utilize part of the foreign currency in hand to do business in the exchange market. At the same time, the bank is actively seeking opportunities in the international financial market to establish overseas branches. Of course, before such opportunities arise the bank will seek foreign agencies to handle its business. Recently, many financial institutions in Japan, Germany, France, Great Britain, and other countries have made initial contacts, and the search is still continuing. Finally, Gu Shuzhen cheerfully pointed out that the Communications Bank is scheduled to formally open in the spring of 1987; the bank's guiding principle is to offer "efficient and excellent service in a civilized and courteous manner," and it hopes to break out of Asia expeditiously, and face the whole world.

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FINANCE, BANKING

INDEPENDENT BANK TO SEEK FOREIGN BUSINESS

OW312157 Beijing XINHUA in English 1613 GMT 31 Mar 87

[Text] Beijing, 31 Mar (XINHUA)--China's Communications Bank has plans to develop business overseas, by cooperating with the Hong Kong branch, establishing ties with foreign banks and raising funds abroad.

The bank, originally founded in 1908, resumed domestic business on a trial basis last October in Shanghai. The bank has been restructured as a national comprehensive bank to handle both Chinese and foreign currency. As one of China's nine "windows," authorized by the state to raise funds abroad, the bank's head office will be officially shifted from Beijing to Shanghai on 1 April, and the Shanghai branch, the only domestic branch at present, will open for business the same day.

"Our bank, unlike other state specialized banks, will not rely on any support from the country's Central Bank, and we may experience difficulties at first, so cooperation with our Hong Kong branch is really important," Li Xiangrei, chairman and president of the bank said. According to Li, the Hong Kong branch has been operating continuously since the bank's founding and has plenty of capital.

"The Shanghai and Hong Kong branches will jointly issue foreign currency loans as their first cooperative effort, and the selection of projects to be funded has already started," Li told XINHUA in an interview, during his trip to Beijing to preside over today's ceremony marking the bank's reopening.

"In order to handle import and export accounts, the bank plans to join forces with overseas branches of the Bank of China and foreign banks," Li said, adding to date, over 40 foreign banks have expressed interest and some negotiations with foreign banks have already begun.

The bank also has plans to set up joint financial companies with foreign banks both domestically and abroad to handle wholesale loans.

"As part of an overseas fund-raising scheme," Li said, "the bank will participate in raising funds for the construction of a bridge over Shanghai's Huangpu River, and the Shanghai and Hong Kong branches are currently acting as financial advisers for the project now being designed."

Since trial operation started last October, the Shanghai branch has granted loans and received deposits for several Sino-foreign joint ventures. "The bank has been handling foreign exchange regulation for joint ventures since this February," Li said, "and we expect to further expand these services in the future."

Concerning the bank's domestic services, Li said, "We will support economic cooperation between enterprises, and unlike other banks, our work can be conducted on a trans-regional basis."

"The bank will offer as many new services as possible to meet the needs of the enterprises," Li said, "while at the same time, pulling in as many deposits as possible to ensure sufficient capital."

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FINANCE, BANKING

TIANJIN SECURITIES MARKET OPENED 1 APR

HK020358 Beijing CHINA DAILY in English 2 Apr 87 p 1

[Article by staff reporter Wu Zhijiang]

[Text] North China's major industrial city of Tianjin yesterday opened a securities market, joining several cities which have experimented with similar markets trading in negotiable bonds or shares, a municipal bank official told CHINA DAILY.

Although trading follows the same pattern of the existing markets and faces similar problems, the official said it is still too early to tell whether the Tianjin experiment will succeed.

Gao Zhiling, chief of the Financial Administration Department of the Tianjin office of the People's Bank of China, said by noon the trading counter had been busy with buyers while few bondholders were ready to sell.

Of the total of 15,800 yuan that had been entrusted by noon time yesterday to the Tianjin Trust & Investment Corp., the market's official and sole brokers, 15,100 yuan were for buying and only 700 yuan were for selling, Gao disclosed.

Huang Daosheng, a senior official from the corporation said his company charges 1 percent commission for buying and selling.

Another 250 yuan changed hands yesterday morning after buyers and sellers negotiated the prices, Gao said. The corporation charged 0.5 percent of the transacted bills to cover official surveillance of the deals.

The corporation also plans to buy and sell bonds at the official prices.

Pointing out the troubles of the Shanghai Stock Exchange where there are few sellers and plenty of buyers at low selling prices, Huang said his company intends to offer official quotations that would encourage brisker trading.

As the Tianjin market is still in its experimental stage, the municipal authorities are keeping a close watch on its management and policies, Gao said.

Earlier, Gao had described the country's existing money markets as "immature marts."

China's first securities market since 1949 came into being last August in Shenyang, an industrial centre in Northeast China.

Shanghai, the country's leading industrial city, followed next in September by reopening a stock market which had been closed since 1949. At first the Shanghai market traded in shares issued by the city's two prominent collectively-owned industrial corporations.

The Tianjin market, along with those elsewhere in the country, can hardly be called "money markets" in terms of Western finances because they differ from those in the industrialized countries, Gao said.

"The allegation that China has developed or will soon develop stock exchange systems equivalent to those of the Western world is groundless so long as the country sticks to the socialist economic and financial system," Gao said.

Current state policies only allow a very limited number of bonds and stocks and restrict enterprises from issuing bonds and shares without permission of the state financial administrators, Gao explained.

So far, only four enterprises, banks and organizations are allowed to trade their bonds in the Tianjin market. They are all state-owned and guarantee to redeem the bonds if necessary.

Since 1985, the municipality has approved the issue of bonds worth more than 110 million yuan (\$29 million).

Another marked difference between China's existing money markets and Western stock exchanges is seen in the brokerage system.

The state does not allow individual speculators and maintains brokerage under the auspices of the People's Bank of China.

"Given the special circumstances of our country, we must approach the new phenomenon in a contemplative and comprehensive way so as to guide tradings onto a healthy track," Gao said.

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FINANCE, BANKING

LIAONING GOVERNOR BEGINS STOCK MARKET, INNOVATIONS

HK060513 Hong Kong SOUTH CHINA MORNING POST in English 6 Apr 87 p 7

[Article by Stanley Leung]

[Text] Compared with the aged leaders in China's political arena, 43-year-old Mr Li Chang-chun, governor of Liaoning Province, could well be referred to as a "child prodigy."

Mr Li, in Beijing for the National People's Congress, is the youngest governor in China's 21 provinces.

Mr Li, named after Chang-chun City in Jilin Province where he was born, graduated in electrical engineering from the Harbin Industrial University in 1966 and considers himself a technocrat. He became mayor of Shenyang City at the age of 38 in 1982, only 2 years after he ventured into the political arena.

Mr Li introduced drastic reforms in Shenyang, China's heavy industrial city.

He tried to improve the management of enterprises by four means--the introduction of bankruptcy provisions, shareholdings and auctions and introducing leases.

Under his leadership, the first stock market in China emerged in Shenyang, creating more favourable conditions for enterprises.

The approach was immediately adopted by many other Chinese administrations and scores of economists, entrepreneurs and reporters were attracted to Shenyang to study the system.

The stock market earned Shenyang a reputation as a "city of innovation."

Now, the young governor has shifted his attention to further opening the Liaodong peninsula.

"Emphasis will be put on opening up to Russia and Japan. We are also eyeing the United States and West European markets," he said.

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FINANCE, BANKING

PRIVATE CREDIT COOPERATIVE OPENS IN DANDONG CITY

OW260515 Beijing XINHUA in English 0352 GMT 26 Mar 87

[Text] Shenyang, 26 Mar (XINHUA)--Wealthy self-employed merchants in Dandong City no longer have to cart huge amounts of paper money around on their buying or selling trips, since a private credit cooperative became their money keeper.

The Dandong urban individual-run credit cooperative of the northeast China's Liaoning Province was set up by self-employed business people who, along with their association, pooled 100,000 yuan to get it started, said a member of the association.

"We badly needed our own credit cooperative. Now, we are never bothered by pickpockets or thieves," said a self-employed merchant from the city. The largest denomination of paper money here is 10 yuan (3.72 U.S. dollars) and merchants often have to carry bundles of cash when they make expensive purchases."

Although collective-run credit cooperatives work well for individuals they cannot satisfy the various demands of a good number of merchants.

"That's why the private credit cooperative was born in response to their calls," said an organizer.

The credit cooperative is like a small bank, handling deposits, leases, loans and other financial services.

Located in the center of the city, the credit cooperative has collected 150,000 yuan in savings deposits from 60 self-employed merchants since it opened service last Friday.

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FINANCE, BANKING

BRIEFS

1982 TREASURY BONDS TO BE PAID--Beijing, 3 Apr (XINHUA)--China plans to pay 1982 treasury bonds, held by individuals and enterprises, from 1987 to 1991, according to a notice issued by the Ministry of Finance today. A lottery for payment will be drawn in Shanghai on 14 April, and bonds worth more than 4 billion yuan (1.1 billion U.S. dollars) will be paid between 1 July and 30 September annually. [Text] [Beijing XINHUA in English 1531 GMT 3 Apr 87] /9599

DEBTS, MONETARY RESERVES--Beijing, 4 Apr (XINHUA)--China's gold reserves stood at 12.67 million ounces and state foreign debts outstanding at 7.572 billion U.S. dollars by the end of 1986, according to the latest issue of "CHINA FINANCE" published today. The country's foreign exchange reserves at the time were 10.514 billion U.S. dollars, of which 2.072 billion belonged to the state treasury and 8.442 billion to the Bank of China, the state foreign exchange bank, reported the monthly, which is published by the People's Bank of China, the central bank. [Text] [Beijing XINHUA in English 1445 GMT 4 Apr 87] 9599

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SMALL-SCALE ENTERPRISES

TECHNOLOGICAL PROGRESS IN TOWNSHIP, TOWN INDUSTRIES

Beijing JINGJI GONGZUO TONGXUN [ECONOMIC WORK BULLETIN] in Chinese No 21, 15 Nov 86 pp 23-24

[Article in the Township, Town Enterprises Column, by Xiao Lan [2556 1526]: "Hopes and Fears of Township and Town Industries in the Course of Technological Progress"]

[Text] Government departments, research units, and enterprises agree that technological progress of the township and town [henceforth abbreviated as "township"] industries has reached a critical stage.

I

Since the 3d Plenum of the 11th CPC Central Committee, township industries have separated from the military and have grown rapidly. Between 1980 and 1984 GVIO at both the township and town levels grew at an average annual rate of 19.4 percent. In 1985, the GVIO at the two levels, township and town, reached 183.1 billion yuan, 18 percent of the national GVIO and 44 percent of the rural community's gross output value; in fact, it was even higher than the national GVIO of 166.5 billion yuan in 1969. Nationwide, township industry's exports are earning about \$4 billion. In areas where township industries are well established, their GVIO often accounts for 30 to 60 percent of the area's GVIAO. At the end of 1985, there were over 2 million township enterprises employing over 70 million in surplus labor. The development of township industries realized a golden age under the Sixth 5-Year Plan; its development followed successes in reforms of the rural economic structure and plays an important role in our national economy.

On the other hand, township industries have had a short history of development and its foundation is weak. The basic problem is that township industries "don't have a good start; after establishment they suffer mismanagement; as a result they are over-burdened." Therefore, behind all the encouraging statistics there are many troublesome figures and cold realities.

Between 1980 and 1985, the GVIO of township industries grew at a high average rate of 24.8 percent per year, but their circulating funds were being depleted, and their expenditures were increasing at a even faster pace, and as a result, the average rate of increase in net output value was only 14.11

percent. Even in Wuxi, a city with the most advanced township industries, output value during the first 6 months of 1986 rose 23.85 percent, but profits fell 24.08 percent, compared to the same period in 1985. As for the quality of the products, the situation is not optimistic either. According to the Township Enterprises Equipment and Engineering Research Institute survey, only 1 percent of the more than 20,000 products produced by the 10,000 factories throughout the 34 counties was awarded any kind of commendation for fine quality; in 1985, 91.5 percent of all products were ordinary goods, and only 2.3 percent were newly developed goods.

Poor economic results, lack of quality control, high consumption of materials, and the lack of essential personnel and capital are some of the problems plaguing township industries. Over the past few years, we realized rapid growth by means of expanding inputs and have attained the material and technological prerequisites as well as a foundation of a substantive scale. To continue to grow, we must rely on technological advances.

With the continued restructuring of the urban economic system, township industries face an additional opportunity and a new challenge at the same time. With state-run enterprises becoming increasingly autonomous, township enterprises have more opportunities to work with the major industries, and as they become more closely associated with the urban centers and the large and medium-sized enterprises, the possibility of raising their technological and management standards are broadened. On the other hand, with various kinds of markets opening up gradually, and with improved macrocontrol, the township enterprises which still rely on average techniques, nonspecialized operations, and the sale of raw materials will find their relative advantages disappearing; at the same time, the pressure from market competition is mounting.

Township industries are also burdened with the responsibilities of changing the rural production mix, and absorbing the surplus rural work force. Without a clear general policy to guide technology, a large-scale but low-standard development will certainly result in the waste of energy, resources, and raw materials, and lead to environmental pollution.

On the one hand, the township industries are deluged with a surplus work force of over 100 million people who have left agriculture for the processing industry, and on the other hand, they are facing tough market competition. If these industries are to survive these pressures, they must invigorate and strengthen themselves. Our conclusion is that township industries must embrace science and technology in order to survive.

II

Achieving technological progress is an urgent task for township industries, but it is a more formidable task for them than for large industries. At present, obsolete facilities, outdated techniques, and the shortage of qualified personnel, are the major obstacles to improving the quality of products, and reducing raw material consumption. To replace the outdated facilities calls for technological transformation, but lack of essential capital is another prominent problem. If the township enterprises hope to

achieve technological progress, they must solve the personnel, financial, and materials problems. These are the decisive factors in propelling them toward technological progress.

Qualified personnel is the key element in achieving technological progress. All advanced technologies and management systems need modern, science-trained and and educated managers. With continued restructuring of the rural economic system, the peasants are realizing the importance of education, and they are showing great respect for the professionals. Township enterprises have an insatiable need for well-trained personnel, and they are competing for all kinds of technical people. Shanghai's Nanchang Lightbulb Factory is the nations' most productive plant, it earns the most foreign currencies among its peers, and this year in the context of more than 30 competing plants, it won top honors for producing the finest products. The secret to its success lies in Professor Cai Zuquan [5591 4371 3123], the nation's expert in the study of light sources, whom they have retained as technical consultant. The factory also has launched cooperative efforts with Fudan University to develop better product information, to train personnel, and to develop new products. They also hired professors specializing in management from Shanghai Jiaotong University to hold training courses at the factory. In order to provide these professors with comfortable facilities the factory spent over 1 million yuan to build an air-conditioned hostel. Peasant-entrepreneur Lu Guangqio [7267 0385 3808] said, "competition is not a matter of who has the best facilities or the most people, but who has the most qualified personnel." Under Lu's leadership, Hangzhou's Wanxiang [JIE] Factory emphasizes multilevel and multichannel personnel training, and has become a model for the township enterprises. Of-course township industries face numerous problems and obstacles in their effort to nurture and utilize personnel. For example, township factory managers are frequently transferred, and when a newly trained manager is transferred, it affects the enterprise's operations and management standard. Some factories send people to the universities, but few return to work for the plant. At present the state is not yet assigning university graduates to work in township industries. And there is another major issue concerning the handling of the technical people who are helping the small town enterprises. Under the present conditions, the short cut to finding the personnel to expedite advancements in the technology of the small town industries is to recruit the professionals and technical people to work after hours. However, due to certain policy implementation problems, some people are worried about this kind of arrangement, and others have stopped offering their services altogether, and this adversely affect the enterprises' operations. Many problems can be summed up to one point, and that is, the government must promulgate timely and effective policies, and provide a lenient policy environment for professional technical people to help the township industries. It is learned that the labor personnel department has made preliminary decisions on this issue, and formal documents will be handed down soon.

Scarcity of capital is the major problem faced by the large state-run industries and township enterprises alike. But township industries have their unique problems, one of which is the allocation of their after-tax profits. The main issue lies in the substantial levies and the low profit retention for the enterprises: profit turned over to the villages can be more than half of

the enterprises' after-tax profit; some villages even take away all of the enterprises' profits, tax exempt income quota, depreciation funds, and all. Enterprises, in fact, become the village and township governments' "money tree" or "repository.". One brickyard in Bianning Province had a net profit of 90,000 yuan in 1984, the township government took away 100,000 yuan! The next year it netted 110,000 yuan, and the township again took away 100,000 yuan! This unwise practice of "draining the pond to catch the fish" and "killing the hen to get the eggs" severely handicaps the development of the enterprises, but the enterprises can do nothing but complain. The basic problem is, first, the failure to separate government and enterprises--the local governments are interfering with the business operations of the enterprises; secondly, the irrational distribution of capital--the leadership in the government and the enterprises must understand that technological progress must rely on the enterprises' own accumulations and growth; they must open up more channels to gather funds for technological transformations, and actively attract capital investment, and participate in joint ventures, cooperatives, and compensation trade.

Ultimately, everything is a matter of concept. Hundreds of thousands of farmers were small farm workers before they join the fully mechanized industrial frontline. They need time to transform their narrow and conservative peasant mentality into broad and modernized industrial consciousness. The speed of this transformation determines the enterprise's technological progress. Some enterprises believe that a one-time purchase of new facilities will solve a lifetime of problems. Some enterprises randomly pick one product without knowing the market conditions, they blindly produce goods without even considering improving techniques and enhancing their ability to compete. Others only eye immediate profits and are unwilling to invest in new equipment. These enterprises leaders retain their small farm operation mentality, and are unable to adapt to new developments in society. But in the regions where township industries are well developed there are many overnight success stories: people realize the advantages of importing advanced technologies and starting out at a higher point, and when they start up their business they immediately turn to the most advanced equipment and techniques in this country, or from abroad. Shanghai's Yuehua Plastic Goods Factory imported their new equipment from Italy and other countries at a cost of over 1,279,000 yuan, and they imported raw materials from overseas to produce A B S engineering plastics which are scarce in this country. The factory recovered its investments 11 months after it went into operation. Fujian's Putian County's Jiangkou Electronic Enterprise Inc formed a joint venture with foreign businesses, and imported some closed-circuit computerized automatic installation and production equipment and testing apparatus for processing electronic watch components, integrated circuitry, calculators, and several other highly intricate products destined for overseas markets. Because developments in our country's township industries are uneven, different regions should be given different kinds of guidance toward technological improvement. In the interior and in other regions where township industries are not yet established, technological improvement should still emphasize the promotion of traditional arts and crafts. But achieving a high starting point is township enterprises' shortcut to greater progress, and we should keep this in mind when we build new plants and facilities, whether they are in the coastal cities or in the interior.

In technological transformation, enterprises must emphasize accelerating the rate of depreciation to build up the enterprise's capacity for technological progress. Hangzhou's Wanxiang [JIE] Factory speeded up the rate of depreciation of its equipment from 15 to 10 years, and even to 7 years after it attained outstanding results. The management feels that its immediate profits may be affected but its objective is to seek long-term profits. This enterprise's leader has the strategic foresight of one who can handle modern industries.

Today, China's restructuring of the economic system is in full swing; the success or failure to achieve technological progress will determine the fate of the township industries, and the life or death of the township industries in turn will determine the second phase of rural economic reform. We must not throw away what we have achieved so far; we must not shove back the hundreds of thousands of peasants who have been liberated from farm work. Technological improvement in the small town industries is urgent, and imperative.

12986

CSO: 4006/348

SMALL-SCALE ENTERPRISES

TOWNSHIP ENTERPRISE'S PROFIT RETENTION

Beijing NONGMIN RIBAO in Chinese 22 Dec 86 p 1

[Article by Fu Zhidi [0265 0037 2769]: "The State Economic Committee's Agriculture, Animal Husbandry, and Fishery Departments' Circular on the Heavy Burden and Low Profit Retention of Township Enterprises: Enterprises Must Be Allowed To Retain A Minimum of 60 Percent of the Net Profits: Village and Township Leaders Must Respect the Right of the Enterprises To Operate Business and Utilize Funds Autonomously; Enterprises Have Right To Reject Egalitarianism and Indiscriminate Transfer of Resources Or Unreasonable Apportionment"]

[Text] Pertaining to the problems of township enterprises' heavy social burden, low profit retentions, lack of staying power, and other problems, the State Economic Commission's agriculture, animal husbandry, and fishery departments have jointly issued a circular entitled "Several Suggestions on the Question of Township Enterprises' Profit Distributions." Contents of the circular are as follows:

1. Township enterprise profit is the indispensable source of funds for expanding reproduction and developing the rural economy. Therefore the issue of how to allocate the enterprises' profit should be on the agenda of every leadership organ's important discussions. We must promulgate policies, and enhance guidance to make the best use of these limited funds.
2. Besides levying taxes according to regulations, we must take steps to reduce the enterprises' social burden in order to reinforce their ability to accumulate, to make self-improvements, and to further develop themselves. The industrial sector must supplement agriculture, and subsidize social welfare, and on the basis of developing productions, every enterprise worker and staff should be able to enjoy higher individual income and better collective welfare.
3. Specific funds designated for specific uses collected according to regulations must be retained by the enterprises, and must not be treated as profits to be turned over to the government, or reallocated. We must practice the principle of "collect funds before spending them; reserve specific funds for specific uses; budget the programs and never resort to deficit spending." The spending of specific funds must be closely supervised.

4. The allocation of after-tax net profits should be reasonable: enterprises should be able to retain at least 60 percent, a large part of which should be spent on expanding reproductions. A part of the profits turned over to the township and village governments and the enterprise administrative organs should be spent on rejuvenating and transforming older enterprises, or developing new enterprises; the remaining part should be spent on subsidizing the farmers. As for supplementing social expenditures, those township enterprises which have turned over 10 percent of their pre-tax profit should not have to turn over any after-tax profit for this purpose. If there is genuine need for further enterprise support, prior approval from the county is required before levies can be imposed.

5. Contractor's agreements should reflect the principle of profit distributions, especially the portion withheld for the enterprise's accumulation must be clearly specified. Above-plan profit, and profits generated by contractor's agreements should mainly be used on enterprise accumulations, bonuses, and welfare funds.

6. Strive to reduce administrative and nonproductive expenditures; social welfare undertakings must be within the means of objective economic conditions. While we are constantly developing production, the people's material and cultural life should also see gradual improvements.

7. Except as regulated by the State Council, and provincial, autonomous region, and municipal governments, no other department may collect any kind of fees or payments from township enterprises. Township enterprises have the right to reject egalitarianism and indiscriminate transfer of resources, or unreasonable apportionments and levies. Those who misappropriate and waste the properties of township enterprises should be dealt with severely.

8. The finance department, the tax department, and the banks (credit cooperatives) should act in a supervisory capacity, and actively cooperate with the township enterprise administrative department in assisting and supervising the enterprises in allocating, managing, and utilizing their profits.

9. Improve the quality, and maintain the relative stability, of the financial and accounting staff in township enterprises. The transfer of accounting personnel should have the prior approval of higher management departments.

10. The key to whether township enterprises can properly allocate and utilize their profits lies in the township (town) and village leaders. Today, we must pay special attention to the relationship between "government" and "enterprises." The enterprise's right to determine its own business operations and to utilize its own funds must be respected.

12986

CSO: 4006/348

AGRICULTURE

HE KANG ON RURAL SCIENCE PROMOTION PLAN

OWO61654 Beijing XINHUA in English 1530 GMT 6 Mar 87

[Text] Beijing, 6 Mar (XINHUA)--This year's focus for China's rural science promotion will be to encourage township science promotion associations, according to He Kang, minister of agriculture, animal husbandry, and fisheries.

He also said, "The plan will also emphasize setting up and perfecting mass technological service systems and spreading practical know-how to maintain systematic rural economic development."

He, also vice-chairman of the China Association for Science and Technology, made the announcement at the China rural science promotion meeting which opened here today where he also told delegates, "every department should create an environment for the new rural economic development, pay attention to rural economic growth and introduce new methods to help farmers raise their income."

This year rural science promotion covers seven aspects, He said, including encouraging township science promotion associations; setting up more professional-skill associations; training farmers and technicians; helping farmers use science to raise their standard of living; helping the progress of township enterprises; implementing science promotion and carrying out the plan in line with China's "Spark Plan."

The "Spark Plan" was introduced in 1985, and was formulated to spread technological information and practical know-how to the countryside in a bid to accelerate rural economic development.

He said, "We must bring the potential of skilled farmers into full play and help them set up professional and technological associations, which will be the base of the township science promotion associations." He also said, "We must set up every kind of comprehensive science promotion organization to combine special with comprehensive service."

Professional associations have been organized by skilled farmers by their own initiative and have broken the boundaries of families and individuals. According to sample surveys in some provinces, half of the existing

associations are related to planting, 40 percent to breeding and cultivation and the rest to processing.

He stressed, "In helping poorer households get rich, science and technology should be utilized, and the drive to eliminate poverty should go hand in hand with introducing new techniques and new ideas."

"Some rural enterprises are using obsolete technology and facilities, are wasteful in energy consumption, high in production costs, offer poor quality products, are backward in management and slow in sales," He said, adding efforts are necessary to organize relevant training, promote technological transfer and support and encourage scientific workers to run or contract rural enterprises.

He revealed 10 major types of agricultural technology which China hopes to introduce in the next 10 years. They include new strains of grain, cotton, oil, livestock and fruit, new seedling and planting techniques for some crops, utilization of plastic film and other chemical materials in the fields, better fertilizer application, plant and livestock disease preventive techniques, better marine and fresh water aquatic cultivation techniques, and new methods to preserve fresh and live products.

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CSO: 4020/161

AGRICULTURE

GROUPS OF EXPERTS TO ADVISE ON RURAL ECONOMY

OW011611 Beijing XINHUA in English 1556 GMT 1 Mar 87

[Text] Beijing, 1 Mar (XINHUA)--China's Ministry of Agriculture, Animal Husbandry, and Fishery has set up 12 groups of experts to advise on the development of the rural economy, the "PEOPLE'S DAILY" reports today.

Since the first group was formed in 1982, the experts have made 100 proposals to central and local governments on production, economic planning, science, technology, cultivation of hybrid rice, wheat, maize, soybean, cotton and sugar beet, and fishery.

They have also suggested ways of carrying out the rural economic restructuring and other policies.

When the first groups were set up, China was facing a slump in hybrid rice production. The proposals made by the group helped the ministry avert the situation, the report said.

In 1983, China grew hybrid rice on 6.6 million hectares, more than any of the previous years, and in 1986, the total output doubled the 1982 figure.

According to their proposals, China will grow hybrid rice in 41.8 of all its paddy fields during the current 7th 5-Year Plan period (1986-90), said the report.

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AGRICULTURE

TOUGHER LAWS URGED TO PREVENT TAKEOVERS OF CULTIVATED LAND

Kunming YUNNAN RIBAO in Chinese 27 Feb 87 p 3

[Article by Liu Xueyu [0491 1331 1946]: "Need To Cherish Fully and Make Rational Use of Land"]

We take the treasuring and rational use of every inch of our land to be a basic national policy. So that we may institutionalize this policy and legalize it, we formally implemented the "Land Law of the People's Republic of China" on 1 January of this year. To carry out this law, we need to greatly elevate the importance of land in the minds of the cadres and masses, strengthen our legal concept of land, and consciously conserve arable land and rationally use land.

[Excerpts] Ours is a nation with a large population and little cultivated land. Cultivated land area in the world today averages 5.5 mu per capita, but in China the amount is only 1.5 mu. In Yunnan Province, the amount of cultivated land is only 1.28 mu per capita. Since liberation, population has increased steadily and the cultivated land area has decreased steadily. Statistics show the province's population to have more than doubled during the past 37 years and the cultivated land area to have decreased by one-half. As a result, the conflict between a large population and little land has become increasingly glaring. The conflict has become even more serious during the past several years and is fraught with danger. It has been manifested in the following ways: First has been a heedless expansion of the use of land for nonagricultural purposes and a dramatic decline in the cultivated land area. A look at the situation of just the past 3 years shows an astounding decrease in the cultivated land area. In 1983, it decreased by more than 170,000 mu; in 1984, it decreased by more than 467,000 mu; and in 1985 it decreased by more than 374,000 mu for a total decrease of more than 1 million mu in 3 years. Furthermore, most of it was fine fields with good soil. During the same period the province's population increased by more than 1 million. All in all, the result of a 1 million increase in population and a 1 million decrease in land was like adding the population of a medium-size county and subtracting the land area of a medium-size county. At this rate, within slightly more than 100 years the province's more than 40 million mu of cultivated land will be entirely used up with consequences too terrible to contemplate. Therefore, the rational and complete use of land resources not only has a bearing on construction today but also affects the prosperity of posterity. Second, the

limits of authority for examination and approval of the use of land for construction have been infringed. An extremely tumultuous situation surrounds the issue of using land for construction, including the use of city and town land by national organizations and entrepreneurial units, the use of land by township enterprises, and the use of land to build houses for peasants, staff members, and workers. Occupying land before approval, occupying more land than has been approved, occupying land first and getting approval later, self-approval of land takeovers, and use of official authority to approve numerous land takeovers are examples of violations of regulations for indiscriminate takeovers of cultivated land. Unhealthy trends toward indiscriminate use of land are far from having been stopped and are on the rise. A survey shows a total of more than 7,000 beds having been provided in various inns and hostels in one city though an average of only slightly more than 3,000 were used each day, a utilization rate of less than 50 percent. Particularly serious cases of a not very high utilization rate for land, houses, and facilities occur when cadres abuse their official authority for private gain, taking over fine fields to build high, large, and spacious private houses. Third is the extremely glaring situation of illegally buying and selling land. Though the "Land Law" explicitly provides that land is owned by the state or collectives and that no organization or individual may seize, buy and sell, or use any other method for illegally transferring possession of land; nevertheless, in some areas instances have occurred in which private individuals have bought and sold land in violation of the socialist system of public land ownership. In short, the situation of arbitrary takeovers of cultivated land and the indiscriminate use of land has now gotten to the point where something has to be done about it. Unless genuinely effective action is taken at once, an error of historical proportions will be made.

We should realize that urban area must gradually grow with socioeconomic development and population growth, that the building of dwellings for peasants, staff members, and workers must expand, and that the use of land for industry will increase as well. This is the trend of future development. Therefore, in addition to continuing to carry out the basic national policy of planned births to control population, we must cherish land, improve planning and control of the land, the better to use land in a rational way and to improve benefits from land utilization. First, vigorous efforts have to be made to intensify propaganda and education about the importance, the urgency, the limits and the valuableness of land to heighten the level of understanding of the broad masses of cadres and the public in order to lay a fine psychological basis and a mass basis for carrying out intensive use of land. Although China is known as a vast land abounding in natural wealth, the amount of land, particularly cultivated land, is seriously inadequate. This requires that the people care for and cherish the land and use the land intensively. It both requires an improvement of the agricultural labor productivity rate, thereby raising the yields per unit of area from the use of land for agriculture, and when land is used for nonagricultural purposes, an orientation toward highly intensive development has to be particularly stressed. Insofar as possible, no, or little, cultivated land should be taken over, and the construction area, industrial output, output value, and population density per unit of land area should be increased insofar as is possible and within reasonable limits. In the use of land for construction, every effort should be made, particularly in Kuming and several other cities,

to build up in the air and down in the ground, expanding three dimensionally so as to increase the intensivity of land use for nonagricultural purposes. Next, care of the land should be made a part of the legal system, care and use of the land being done according to law. Land is the most important means of agricultural production, and it is the country's precious wealth that should naturally be protected by law. Positively no violations of the socialist system of public ownership of the land should be allowed to occur. Use of the land must be according to law. A strict control system should be carried out using the "Land Law" and other relevant regulations, and buying and selling of land in violation of the law should be resolutely banned. All use of land for construction should have to go through strict examination and approval procedures, everything being handled in accordance with law, and arbitrary takeovers of cultivated land and increases in the amount of land used should be stopped. A firm halt must be put to the unhealthy tendency of arbitrarily taking over cultivated land or using land indiscriminately. Those who misuse their authority for private gain in serious violation of law and discipline are to be publicly exposed and punished according to the law. Finally, economic methods for controlling the land should be strengthened. A system must be instituted whereby compensation is paid for land, land use taxes being collected according to the grade of land, geographical location, and use. Any requisitioning of city land, whether by national organizations or entrepreneurial units, would require payment of a land-use fee. Furthermore, inasmuch as the conversion of land from "agricultural to nonagricultural" use stems from economic causes, the output value, profits, and economic benefits of an industry or business frequently being several times or even several tens of times higher than the agricultural output value from the same unit of land, corresponding measures should be adopted so that the gap between earnings from farming by peasants and earnings from nonagricultural operations are not too great. Various means might be employed to do this, such as industry subsidizing agriculture or business subsidizing agriculture, or readjustment of prices for agricultural and sideline products so that there is a correlation between part of the profits and total profits, current profits and long-term profits, individual profits and collective profits from using the land for effective development and use of land resources.

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AGRICULTURE

PROGRESS IN LOESS PLATEAU EROSION CONTROL NOTED

HK100416 Beijing CHINA DAILY in English 10 Mar 87 p 4

["Special to CHINA DAILY" by Qi Ying]

[Text] China has so far brought soil erosion under control over a quarter of the area hit by erosion on the Loess Plateau in the upper and middle reaches of the Yellow River, according to the Ministry of Water Conservancy and Power.

This achievement--affecting 100,000 square kilometres--was made mainly by planting trees and grass and terracing fields, said an official in the Yellow River Conservancy Commission under the ministry.

He said about 5.3 million hectares of trees and 1.3 million hectares of grass had been planted and 2.67 million hectares of fields terraced on the plateau in the last 36 years.

Thanks to these projects, he added, sand carried downstream by the river was reduced by some 200 million tons a year.

Soil erosion is the most serious environmental problem on the Loess Plateau. About two-thirds of the 600,000 square kilometres on the plateau suffers from soil erosion. Every year the Yellow River washes away an estimated 1.6 billion tons of soil, dyeing the waters yellow.

Sand in the water is deposited in the lower reaches of the river, elevating the bed several metres above the North China Plain. It is a "suspended river" in fact.

To control soil erosion on the plateau, China has, since 1980, encouraged local people to undertake projects to combat erosion, individually or jointly on a family contract basis. The central theme is to plant trees and grass.

The government stipulates that planters will own the trees and grass for at least 50 years, although the land still belongs to the collective or the state. Such trees and grass are also transferrable and inheritable.

This policy has linked soil erosion control to the interests of individuals, so it arouses their enthusiasm for the work, the official said.

At present, about 4 million families, or 38 percent of those living on the plateau, have contracted projects to control soil erosion on 5,300 square kilometres of wasteland in 250,000 valleys, according to the official.

The Chinese Government spends 160 million yuan (\$43.2 million) a year on soil erosion control, most of the money being used on the plateau.

Great changes have taken place in some areas as a result. Family-run farms, forestry centres, orchards and pastures have appeared, changing the landscape of the highlands.

The change can be seen in Quanjia Valley in Mizhi County in northern Shaanxi Province.

For centuries people in the Quanjia Valley indiscriminately felled trees and cleared hillsides to obtain more land. This caused the valley to deteriorate into a picture of barren hills and dry gullies. Clouds of dust used to hide the sky on windy days and during rainstorms water washed away large amounts of soil.

Denuding the land quickened the pace of soil erosion, which in turn made farming increasingly difficult. Per-hectare grain output in a village in the valley, for example, averaged a low of 500 kilograms in 1979.

Since 1980 farmers in the valley have gradually reduced their extensive cultivation of the barren land. Instead, they have begun to plant trees and grass on the slopes. They also grow shrubs in areas unsuitable for trees and grass.

Their efforts have brought great benefits. The vegetation rate has increased to the present 43.4 percent from 18 percent in 1979, easing the amount of soil erosion considerably. Per-hectare grain output in that village increased to 1,300 kilograms in 1985, 2.5 times that of 1979.

With more grain and pastureland, animal husbandry in the village has also developed. Now almost all the households raise animals including cattle, sheep, pigs, rabbits, and chickens.

Nowadays Quanjia Valley is a picture of another kind. The hillsides are covered with grass and trees. Herds of cattle and flocks of sheep graze the slopes. Wheat and other crops grow sturdily on the terraced fields. Streams murmur in the valley bottom.

Chinese ecological specialists believe that it is a "major breakthrough" in environmental protection for China to have swung itself from over-cultivation to planting of trees and grass in large areas of the Loess Plateau.

They also observe that it is an arduous task to fundamentally change the environmental conditions on the plateau.

The Chinese Government has listed soil erosion control on the plateau as one of the country's major tasks for the coming years.

AGRICULTURE

QINGHAI BEGINS PROCESSING OF POTATOES INTO FLOUR, NOODLES

Processing Exceeds 2 Million Tons

Xining QINGHAI RIBAO in Chinese 28 Feb 87 p 1

[Article by Li Kefu [2621 0344 1133] and Fan Zhongchi [5400 1813 2170]: "Province's Potato Processing Breaks 2 Million-Kg Mark; Good Performance in Potato Conversion and Development of Commodity Production"]

[Text] New techniques for the mechanization of potato processing that have been made a part of Qinghai Province's "spark plan" have been applied at 30 processing sites in 7 counties of the province's eastern agricultural region. During the autumn of 1986 and the spring of 1987, 2.15 million tons of potatoes were processed to produce 230,000 kg of starch, and 200,000 kg of processed potato starch noodles and vermicelli with an output value of 410,000 yuan. This was 3.4-fold again as much as the total investment in mechanized processing for a net profit of more than 80,000 yuan.

The spread of new mechanized potato-processing techniques got off to a late start in Qinghai Province. After more than 2 years of effort, 30 complete machines and more than 150 individual machines have been introduced into the province as of the present time. These machines are low in price and easy to operate. On-site checks have shown these machines to be 6 to 20 times more efficient than hand methods in grinding, separation, and flour making. The flour outturn rate has risen 10 percent and there has been a 69-percent saving in labor. The Wangzhanfu Joint Management Processing Site in Longyi Village, Donggou Township, Huzhu County processed 250,000 tons of potatoes in 1986 to earn a net profit of 8,300 yuan. It fed 33 hogs with flour residue, earning 2,100 yuan from the marketing of 8 fat hogs. It also purchased flour-grinding and oil-extraction machines, and is developing in the direction of complete machine processing of grain, oil, and nonstaple foods. The processing site in Shengping Township, Huangzhong County processed 230,000 tons of potatoes. It also bought 30 tons of potato flour from elsewhere, which it processed into noodles and sold, earning a profit of 23,000 yuan in 3 months. The noodles processed at these two sites meet quality standards set by the Ministry of Commerce and the Ministry of Health.

Commentary on Significance of Potato Processing

Xining QINGHAI RIBAO in Chinese 28 Feb 87 p 1

[Editorial: "Let Potato Processing Add Value"]

[Text] Qinghai Province grows potatoes over a wide area. Output is large and starch content is high, making potatoes a crop with a rather high commodity rate. Promotion of the new mechanized potato-processing techniques and doing a good job of adding value through processing holds great significance for the development of commodity production, for enlivening the rural economy, and for the curing of mountain region poverty to become rich. Potato producing areas should strive to spread this new technique, both consolidating and improving work at old processing sites and appropriately increasing the number of new sites. Processing sites made up of from three to five peasant households doing processing in partnership are ideal at the present time and should continue to be developed.

New development should take place during 1987 i.e. the spread of potato machine-processing techniques, and the amount of potatoes processed should increase further, every effort being made to bring to a close as quickly as possible the situation of the people in the province depending on noodles brought in from outside the province.

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AGRICULTURE

BOOST GIVEN JIANGSU SILK PRODUCTION

Nanjing XINHUA RIBAO in Chinese 1 Mar 87 p 2

[Interview: "Vast Prospects for Silkworm Mulberry Production; Felling of Mulberry Groves Should Halt At Once; Provincial Silk Company Principal Officer Answers Correspondent's Questions on Pertinent Market Prices and Policies"]

[Text] [Editor's Note] Recent letters from some readers have reported that quite a few rural cadres and peasants have cut down lake mulberry trees giving the reason that the growing of mulberry trees and the raising of silkworms do not produce high economic benefits. As a result, the province's mulberry groves have decreased. In order to determine whether such actions are correct, we paid a special visit to the provincial silk company headquarters where the comrade in charge of the company replied to each of the questions we posed. The answers are provided below. [End Editor's Note]

[Question] This year Jiangsu Province wants to readjust the structure of rural industry while insuring steady growth in grain and cotton output. Is it proper for some places to cut down mulberry groves?

[Answer] It is not proper. Silkworm cocoon production is a key item in the province's rural villages, and it is an important, integral part of the rural economy in silkworm areas. Moreover, silk is also a traditionally distinctive major export commodity for the province that has always enjoyed a fine reputation in international markets. The destruction of mulberry trees has to be halted at once. In this regard, the Jiangsu Provincial People's Government specially sent telegrams to all municipalities and counties on 22 February 1986. Most recently at the Provincewide Cocoon Silk Work Conference, Deputy Provincial Governor Ling Qihong [0407 0796 7703] called upon all jurisdictions to intensify basic work on silkworm mulberry, to stabilize the mulberry tree growing area, to strive to raise quantity and quality, and to insure healthy development of silkworm mulberry production. All jurisdictions are to carry out the foregoing spirit conscientiously and take effective action to insure steady increase in the supply of cocoons.

[Question]: Since the province has yet to stabilize silkworm mulberry production, please talk about the province's future prospects for development of silkworm mulberry production. This is a question about which cadres and the masses in silkworm-growing areas are concerned.

[Answer] The province's prospects for the development of silkworm mulberry production are extraordinarily broad. First of all, international silk market prospects continue good, with an increase in demand. Second, there is a very great domestic market demand; more and better raw materials for making silk are needed. In 1986, there was a decline in some of the country's major areas producing silkworm cocoons. Even though Jiangsu Province's output increased; nevertheless, it was unable to keep up with silk industry production needs. Forecasts call for a continued substantial shortage of cocoon silk in the province during 1987. These events demonstrate that both domestic and foreign markets currently require that we energetically increase output of silkworm cocoons. We must not miss the opportunity to take a firm grip on silkworm mulberry production, improve mulberry grove fertilization and care, and strive to score a first victory in 1987 spring cocoon production.

[Question] Prospects for the development of silkworm production are very good, yet the peasants who grow mulberry to feed silkworms feel that their real income from it is not very great. What problem does this reflect?

[Answer] This problem has to be looked at from several aspects. In terms of policy, real costs in growing silkworms have risen as a result of price adjustments for the means of production during the past several years. The economic relationship among cocoons, raw silk, and silk cloth has not been completely straightened out. In addition, some problems exist in the harvesting of cocoons in some areas. In varying degrees, both these situations have dampened the production enthusiasm of peasants growing cocoons, and the real income of such peasants has indeed declined. At the same time, it must be realized that economic benefits from the growing of mulberry and the raising of silkworms have been hurt by the too great dispersal of contracted mulberry groves and the not very high level of care in some places, as well as by the failure of scientific techniques to keep pace and by low yields per unit of area in some newly developed silkworm mulberry production areas. Consequently, the potential is very great for peasants raising silkworms to increase their earnings from the growing of mulberry and the tending of silkworms. At the present time, government and units at all levels are extremely interested in the adoption of numerous measures for the development of silkworm mulberry production. With effort, the not very high earnings of peasants growing silkworms in some areas can be changed. As the main silk company in the province for the production, supply, and marketing of silkworm cocoons, raw silk, and silk cloth, we are responsible, insofar as national policies permit, for the adoption of appropriate measures to increase the cash earnings of the broad masses of silkworm-growing peasants. At the same time, we hope that all jurisdictions will actively change their silkworm grove contract responsibility systems to bring about, in a planned way, the concentration of mulberry groves in key silkworm mulberry production townships and villages and in the hands of specialized households and those skilled in the growing of mulberry and the raising of silkworms to form a silkworm mulberry economy of a definite size. Replacement and improvement of low-yield mulberry groves has to be done in a planned way, and scientific techniques for the production of mulberry silkworms must be constantly upgraded to increase earnings through increased production.

[Question] Many peasants growing silkworms report that materials used in the growing of silkworms are in short supply, that prices are high, and that production costs are high. This seems to be a fact. Have you studied and formulated some concrete, new measures to solve these real hardships for them?

[Answer] At the recently concluded Provincewide Silk Work Conference, we earnestly discussed the aforementioned problems and formulated some measures, the most important of which are as follows: Since no readjustments have been made by the state in prices for silkworms, after requesting provincial government approval, we have decided that, beginning with the arrival in markets of spring cocoons in 1987, a policy of premium prices for premium quality will continue in effect, and production support payments will be provided using the standard of an average 20 yuan or more per dan of fresh cocoons for the year as a whole. For spring cocoons (and fresh cocoons, the same applying hereinafter), the standard will be 30 yuan per dan; for summer and early autumn cocoons, the standard will be 10 yuan per dan. For mid- and late-autumn cocoons, it will be 20 yuan per dan. Support payments will be halved for poor-quality cocoons in all seasons, and no payments will be made for rotten cocoons.

payments reach the hands of peasants growing silkworms. In addition, we will strive to arrange for the supply of materials needed to grow silkworms. We have already arranged for the supply of 10 kg per mu of chemical fertilizer for silkworm mulberry, and we are actively contacting units concerned regarding other materials needed and doing all possible to supply them as quickly as possible.

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AGRICULTURE

FINE COTTON DEMONSTRATION AREAS PLANNED

OW040254 Beijing XINHUA in English 0159 GMT 4 Mar 87

[Text] Zhengzhou, 4 Mar (XINHUA)--China is to develop 1 million hectares of fields specially for planting fine cotton, distributed in 10 cotton-producing areas, including Jiangsu, Henan, Hebei, and Liaoning Provinces.

The demonstration fields aim at spreading fine cotton breeding techniques rapidly throughout the country, a local official said at a cotton technology coordination meeting now in session in this capital of Henan Province.

China developed more than 45,000 hectares of demonstration areas for planting fine cotton in seven provinces in 1986. As a result, the average output of ginned cotton reached 1.2 tons per hectare, an increase of 30 percent over that of the other areas, the official said.

The 10 demonstration areas will concentrate on cotton breeding and growth under different geographical conditions and different climates.

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CS0: 4020/161

AGRICULTURE

PRIVATE FARMING INCREASING VEGETABLE PRODUCTION

OW270245 Beijing XINHUA in English 1624 GMT 26 Feb 87

[Text] Beijing, 26 Feb (XINHUA)--China's 30 major cities harvested 23 million tons of vegetables in 1986, 16.9 percent more than in 1985, according to the latest figures of the State Statistics Bureau.

Bureau officials attributed the increase to production development, resulting in each resident in these cities producing an average of 192.6 kilograms of vegetables in 1986, 15.8 percent over 1985.

More high-quality vegetables appeared on the market, and farmers were encouraged to produce more because of new flexible price controls.

State-run vegetable shops still attracted customers with their stable prices, which increased only 3.3 percent last year.

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AGRICULTURE

CONTRACT RESPONSIBILITY LINKED TO INPUT IN SHANXI

HK270941 Beijing NONGMIN RIBAO in Chinese 14 Feb 87 p 1

[Report by correspondents Sun Chengzhi (1327 2110 1807) and Li Pingshe (2621 1627 4357): "Rural Shanxi Creates Method of Contract Responsibility Linked to Input"--capitalized passages published in boldface]

[Text] Ruran Shanxi has been boldly exploring new ways to instill vitality into agriculture. After successfully instituting the system of contract responsibility linked to output, it recently created a new method of contracted responsibility linked to input.

The method of contract responsibility linked to input is based on the method of contract responsibility linked to output, plus contract responsibility for such input items as goods, technology, and capital. Those overfulfilling their quotas will be rewarded while those failing to reach their quotas will be fined. These contents may be incorporated into the original contracts. They can also be signed separately as a supplement to contracts linked to output.

The method of contract responsibility linked to land input, which has begun to show its superiority, is now chiefly practiced in Shanxi in the following ways:

CONTRACT RESPONSIBILITY BASED ON THE ORGANIC CONTENT OF SOIL Under this method, it is first necessary to determine in a scientific way the organic content of the land contracted by peasants and to take the existing content as a basis for contracts signed with the peasant households; the organic content of soil will be determined or evaluated once a year or every few years and those whose soil has improved organic content will be rewarded while those whose soil has deteriorated organic content will be fined. When one peasant turns over his contracted land to another, cancels a contract, or asks others to cultivate his contracted land, the unit whose land is contracted will determine the organic matter of the soil, which will serve as a basis for rewarding or fining the original contractor and as the basis for the new contractor.

CONTRACT RESPONSIBILITY BASED ON DIFFERENT GRADES OF LAND A peasant contracting for a piece of cultivated land should contract not only for a certain quantity of his output to be delivered to the state but also for the grade of the land.

In the course of, or at the expiration of the contract, the unit whose land is contracted will, together with village cadres, peasant technicians, and peasant representatives, form a land quality assessment team, which will appraise through democratic discussions to topography, landforms, soil layer, and soil fertility, rewarding or fining the contractor as necessary. In some localities, output has also been used as a major parameter for determining land grades. They stipulate different output for different grades of land and determine different grades according to the average output of the land 3-5 years.

CONTRACT RESPONSIBILITY BASED ON DIFFERENT INPUT ITEMS In line with unified planning, the scale of farmland construction projects, and the amount of work the peasants should put into the projects, the unit whose land is contracted sets the amount of farm manure to be used and the new technical items to be popularized. With these as contract based and in light of the economic conditions in each village, the unit works out the standards for meting out rewards and punishments and granting subsidies, applying them promptly rather than at a later date.

In addition to land, contracts for fruit trees and enterprises have also been linked to input items in many localities.

When signing contracts with the peasants for contract responsibility linked to input, some localities have also adopted the method of contract responsibility linked to input among cadres of the rural cooperative economic organizations to strengthen their sense of responsibility to the input of the peasants and to ensure that the input contracts are honored. At present, they have the following two patterns: 1) The cadres of the village cooperative economic organization contract for the total input in the village and their performance will be linked to their wage subsidies. For example, a cadre may undertake to supply the peasants with all the plastic film needed in the village. He may receive wage subsidies only after he has completed his task; he will receive fewer or no subsidies if he fails to fulfill his task. 2) Village-level service companies and individually-run service organizations are encouraged to contract for a certain input service for the whole village. For example, a water conservancy service company may contract for the management of water, a chemical fertilizer service company for the supply of chemical fertilizer, a crop protection service company for the elimination of insects, and so on.

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AGRICULTURE

AGRICULTURAL MACHINERY EXPORTS INCREASING

OW070317 Beijing XINHUA in English 0145 GMT 7 Mar 87

[Text] Beijing, 7 Mar (XINHUA)--China has formed an agricultural machinery export network with 14 bases and more than 200 factories, according to the China Agricultural Machinery Import-Export Corp.

Tong Jiaxun, a corporation official said, "These bases and factories produce more than 1,000 types of agricultural machinery, and about 100 products including diesel generators and processing machines have been well received by foreign clients. In 1986, sales of these products rose 60 percent over the previous year."

During the past 20 years, China has exported agricultural machinery to more than 70 countries and regions including the United States, Australia, and Indonesia.

To improve production, China has imported technology for manufacturing diesel engines, and harvester and plant protection machines.

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AGRICULTURE

BRIEFS

FRUIT HARVEST UP--Beijing, 4 Mar (XINHUA)--China harvested more than 13.4 million tons of fruit last year, up 15.2 percent over 1985, today's "ECONOMIC DAILY" reported. The increase was attributed to the lifting of the price controls over the fruits. Purchase prices rose by 5 percent while retail prices went up 10.5 percent according to a sample survey. Per capita consumption of fruit reached 12.7 kilograms in 1986. At the same time, the paper said, increase was recorded in vegetable output. A survey conducted in 30 large cities shows vegetable growing areas expanded by 9.8 percent last year while output rose by 16.9 percent, the paper added. [Text] [Beijing XINHUA in English 0221 GMT 4 Mar 87 OW] /9599

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MINERAL RESOURCES

GEOLOGISTS REPORT ON NEI MONGGOL MINERAL RESERVES

OW291428 Beijing XINHUA in English 1311 GMT 29 Mar 87

[Text] Hohhot, 29 Mar (XINHUA)--Chinese geologists have identified in 4,000 locations 120 kinds of minerals hidden underground in the extensive grasslands of the Inner Mongolia Autonomous Region, local officials said recently.

In other words, the region has 80 percent of all the different kinds of minerals in China, said officials from the region's geology and minerals bureau.

The region leads the country in deposits such as troilite, rare earths, iceland spar and agate, officials said, adding that 15 other minerals rank second and third in the country.

The region's verified coal reserves have reached 216 billion tons and prospective reserves, 600 billion tons, both ranking second in the nation.

Buried in simple geological structures, most of the coal in the region is suitable for opencut mining, so five of the six strip mines included in the 7th 5-Year Plan (1986-1990) are scheduled for the region.

Baotou City, noted for its rare earths, has six kinds of verified rare earths and leads the country in deposits of rare metals.

In addition, 3 billion tons of mirabilite reserves verified near Baotou have made it possible for the city to become a major chemical base in north China, officials said.

Petroleum and natural gas have also been discovered in the region.

Officials said, however, that the abundant mineral resources need to be more fully exploited, adding that only 31 kinds of the total 71 with verified deposits have been exploited, and 186 out of 671 locations have been mined.

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MINERAL RESOURCES

BRIEFS

JIANGSU SAPPHIRE DEPOSITS--Beijing, 25 Mar (XINHUA)--Chinese geologists have found three sapphire-rich zones in Luhe County of Jiangsu Province, according to today's "GEOLOGICAL JOURNAL." The largest of the zones covers 60,000 kilometers. Sapphire grains stones found there are pure and of dark, light and milky blue colors. The largest specimen unearthed so far weighs 54.27 carats. Sapphire is a precious gem used for decoration or as an abrasive material. The Wuxi County Arts and Crafts Factory has already set some jewelry using Luhe sapphire. Geologists are still studying the zones, which the local authorities have decided to develop. [Text] [Beijing XINHUA in English 1318 GMT 25 Mar 87 OW] /9599

CSO: 4020/159

PRC MEDIA ON FOREIGN ECONOMIES

RENMIN RIBAO ON SOVIET AGRICULTURAL REFORM

HK060738 Beijing RENMIN RIBAO in Chinese 30 Mar 87 p 7

[Article by Fang Xuan (2455 5503): "Progress of Agricultural Reform in the Soviet Union"]

[Text] According to the announcement of the Soviet government, during the 11th 5-Year Plan (1981-1985), the annual average grain output was 180.3 million metric tons, or 60 million metric tons less than the target set by the original plan. Having put an end to the declining tendency lasting for many years in its grain production, the Soviet Union in 1986 reaped a good harvest of 210 million metric tons of grain, or 30 million metric tons more than in the previous year. This achievement resulted from the reform measures taken so far to a greater extent.

The 27th National Congress of the CPSU held last year adopted the policy of "a significant change is necessary for the agricultural departments." In line with the dialectical relationship between the socialist relations of production and productive forces, the Soviet government introduced a series of agricultural production reforms.

Among other things, the government effected an important change in the management structure, established from top to bottom agricultural and industrial commissions, and closely coordinated the various links ranging from production to processing of end products using economic means. Since the income of laborers of the production departments are linked with the amount of end products, the employees are concerned about product quality and aware of cooperation among themselves. Take sugar production, for example. One important reason for the failure to fulfill the production task set in the previous 5-year plan was lack of coordination between the producers and processors of sugar beets. With the introduction last year of the structural reform under which the income of producers and processors of sugar beets is determined by the final sugar output, a fundamental change has taken place in the relationship between the two parties. Consequently, in 1986, although the yield of sugar beets per unit area in some places was lower than in the previous year, the country still registered an increase in sugar output.

The 27th National Congress of the CPSU decided to vigorously carry out a contract system in the rural areas to arouse the enthusiasm of farm workers.

At present, about 50 percent the Soviet cultivated land, 54 percent of the sheep and goats on hand, and 25 percent of the pigs and cows on hand have been contracted to production teams (groups) for operation and management. The introduction of the contract system has brought tangible beneficial results: compared with the performance before the production teams (groups) adopted the contract system, their output value has now increased by 20 percent and their per capita labor productivity by 15 to 30 percent, while their production costs dropped by 5 to 15 percent.

While implementing the contract system based on the production team (group), the Soviet Union has fully affirmed and developed the contract system based on the household, which was first tried experimentally in Georgia in 1983 and has now been popularized in an all-round way in many Soviet republics with the contracting scope being further expanded. The current number of people involved in the household contract system is about 100,000. In the outskirts of Moscow, more than 50 percent of the livestock is now raised by households under a contract system.

The CPSU recently specially convened a meeting on agricultural work at which Mikhail Gorbachev urged the departments concerned to continue adopting reform measures and to fulfill the tasks set by the food program as early as possible, that is, the annual average grain output between 1986 and 1990 is scheduled to reach 250 million metric tons.

The CPSU Central Committee has also decided that beginning this year, the "quota planning regulations" will be implemented under which all collective farms and state farms are required to set the quantities of farm products they are to sell to the state in accordance with their "resource potentialities"-- soil quality, manpower, production equipment, and other factors: their sale quotas will not change for 5 years: and both state farms and collective farms are entitled to sell all agricultural and animal husbandry products in excess of quotas and 30 percent of the fruit and vegetables within quotas. Previously, the Soviet Union determined the tasks for state farms and collective farms to sell their products to the state according to their production levels. This way of doing things was apt to dampen the enthusiasm of the advanced units and to promote the dependent mentality of mismanaged backward units. The new measure can mobilize the enthusiasm of the two. This year, about 23 percent of collective farms and state farms have practiced business accounting, raised their funds independently, assumed sole responsibility for their profits and losses, and been given greater decisionmaking powers in operation.

To achieve the fixed goal of agricultural production, the Soviet Union still faces many difficulties. About half of the 50,000 collective farms and state farms throughout the country are now operating at a loss. According to Soviet newspapers, the leading agricultural departments in many localities are still using the method of monopolizing everything. Collective farms and state farms lack decisionmaking powers as a result. Bureaucracy, lack of a creative spirit, and refusal to change are prevalent in the central leading departments. This presents an impediment to the progress of reform.

PUBLICATIONS

BRIEFS

PUBLISHING HOUSE PLANNED--Beijing, 1 Apr (XINHUA)--The China Planning Publishing House, the first in China's planning departments, was established here today. Li Guangan, president and editor-in-chief of the company, told XINHUA that it would compile and publish books on economic theories of Marxism, Leninism, and Mao Zedong thought, and on commodity economy and economic system reform planning. He said that it would also compile and publish books on foreign economic theory and practise. Some books to be published by the company will be on sale shortly, he added. [Text] [Beijing XINHUA in English 1115 GMT 1 Apr 87] /9599

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BRIEFS

TRADE GROWTH IN FEBRUARY--Hong Kong, 26 Mar (XINHUA)--Hong Kong's total exports last month were up 35.4 percent over February 1986, according to the territory's census and statistics department today. The value of domestic exports reached 1,281 million U.S. dollars, representing a 19.7 percent increase, and re-exports went up by 54.4 percent to 1,361 million U.S. dollars. It was the first time since March 1985 that the value of re-exports exceeded that of domestic exports, according to the department. [Text]
[Beijing XINHUA in English 1450 GMT 26 Mar 87] /9599

CSO: 4020/159

OFFICIALS URGED TO REPORT ON FOREIGN TRADE TALKS

OW070305 Taipei CNA in English 0247 GMT 7 Apr 87

[Text] Taipei, 7 Apr (CNA)--Five legislators raised an emergency interpellation Monday requesting the nation's trade negotiators to report to the Legislative Yuan before and after conducting trade talks with other countries.

The five legislators, led by Tsai Sheng-pang, said the Republic of China will hold another round of economic and trade consultations with the United States in mid-April. Since the results of such consultations have a substantial influence in the nation's long-term interests, the chiefs of trade delegations should brief the Legislative Yuan before and after consultations in order to help people understand the process and the contents of the talks, they said.

The results of recent trade talks with the United States have had a tremendous impact on the domestic economic and financial situation, thus causing many people here to wonder if it is appropriate for the government to make decisions without informing people of the possible effects of the decisions, they said.

According to the Constitution, the Legislative Yuan may determine whether the nation should sign a treaty of an agreement with other countries. To avoid poor communications or misunderstandings between the people and the government, it is necessary for trade delegations to report to the Yuan before making important decisions which may affect the people's rights and interests, they said.

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